

## VENEZUELA: LOOKING AHEAD

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HEARING  
BEFORE THE  
SUBCOMMITTEE ON  
THE WESTERN HEMISPHERE  
OF THE  
COMMITTEE ON FOREIGN AFFAIRS  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED TENTH CONGRESS  
SECOND SESSION

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JULY 17, 2008

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## C O N T E N T S

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	Page
<b>WITNESSES</b>	
The Honorable Thomas A. Shannon, Jr., Assistant Secretary, Bureau of Western Hemisphere Affairs, U.S. Department of State .....	10
David Myers, Ph.D., Associate Professor, Department of Political Science, Pennsylvania State University .....	38
Jennifer L. McCoy, Ph.D., Professor of Political Science, Georgia State University, Director, Americas Program, The Carter Center .....	45
Javier Corrales, Ph.D., Associate Professor, Department of Political Science, Amherst College .....	53
Norman A. Bailey, Ph.D., Adjunct Professor of Statecraft, The Institute of World Politics, President, Institute for Global Economic Growth .....	58
<b>LETTERS, STATEMENTS, ETC., SUBMITTED FOR THE HEARING</b>	
The Honorable Eliot L. Engel, a Representative in Congress from the State of New York, and Chairman, Subcommittee on the Western Hemisphere: Prepared statement .....	4
The Honorable Dan Burton, a Representative in Congress from the State of Indiana: Prepared statement .....	6
The Honorable Gene Green, a Representative in Congress from the State of Texas: Prepared statement .....	8
The Honorable Thomas A. Shannon, Jr.: Prepared statement .....	14
David Myers, Ph.D.: Prepared statement .....	40
Jennifer L. McCoy, Ph.D.: Prepared statement .....	47
Javier Corrales, Ph.D.: Prepared statement .....	55
Norman A. Bailey, Ph.D.: Prepared statement .....	60
<b>APPENDIX</b>	
The Honorable Ron Klein, a Representative in Congress from the State of Florida: Prepared statement .....	77



## VENEZUELA: LOOKING AHEAD

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THURSDAY, JULY 17, 2008

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON THE WESTERN HEMISPHERE,  
COMMITTEE ON FOREIGN AFFAIRS,  
*Washington, DC.*

The committee met, pursuant to notice, at 10:50 a.m., in room 2172, Rayburn House Office Building, Hon. Eliot L. Engel [chairman] presiding.

Mr. ENGEL. Good morning. A quorum being present, the Subcommittee on the Western Hemisphere of the Foreign Affairs Committee will come to order.

It is my pleasure to welcome you to today's hearing on Venezuela. I am pleased, as usual, to welcome my good friend, Assistant Secretary for World Affairs Tom Shannon, who I had the pleasure of just shaking his hand. He has become a regular at our subcommittee hearings, but there is a reason for that, Tom, because we know of no one who is as knowledgeable as you and has the experience and the length and the depth that you have. It is always wonderful to have you here.

I am holding this hearing, knowing that there is plenty of passion surrounding the Venezuela policy debate, but hoping that we can examine Venezuela and United States policy toward the country as objectively as possible. Like many of my colleagues, I have concerns about democracy in Venezuela, but I want to make it clear from the start that I have no hidden agenda and that, ultimately, I would like to see nothing more than a better relationship between the United States and Venezuela.

As a member of the Energy and Commerce Committee, as well as the House Foreign Affairs Committee, I often speak about the perils of U.S. dependence on oil. The United States consumes nearly 21 million barrels of oil per day, and our appetite for oil is growing. I find this reliance on a single resource particularly troubling because much of it comes from nations that are unstable or unfriendly toward the U.S.

In the case of Venezuela, the petrodollars just keep on rolling in. Petroleos de Venezuela, the country's state-owned oil company, said, earlier this month, that their net income rose 80 percent in the first quarter of this year as world oil prices soared. And President Chavez recently called on South American nations to create their own version of OPEC, to be called "Petrosur."

As we think about the U.S. addiction to oil and its impact on our foreign policy, it is tough to ignore the role that our dependence on

oil plays in supporting what New York Times columnist Thomas Friedman refers to as “petro-authoritarian” leaders.

It is hard to look at Venezuela these days and not take note of a number of troubling, anti-democratic developments, from the closing down of RCTV last year to President Chavez’s allies’ recent blacklisting of candidates set to participate in November’s local and state elections. It is no surprise that many view democracy as under strain in Venezuela.

The December 2007 government raid of La Hebraica, a Jewish school and social club, in Caracas was especially alarming to me personally, and I was also disturbed to learn that about one-third of Venezuela’s Jewish community has fled the country in recent years.

I, however, was pleased to see, last week, that Venezuelan Minister of the Presidency Jesse Chacon met with the Jewish community. I truly hope that this will be the first of many meetings and will lead to better government communication with and treatment of the community. Quite frankly, anything less is simply unacceptable.

Finally, let me note that Venezuela’s cozy relationship with Iranian President Mahmoud Ahmadinejad is a very serious cause for concern that we are all closely monitoring, as are recently revealed ties between two Venezuelan citizens, including one diplomat, and Hezbollah.

I must also say that some of the rhetoric coming out of President Chavez’s mouth is particularly troubling. Today, there is a report quoting President Chavez, and I will read part of it because I think it is relevant for this hearing. It says:

“Chavez, a relentless critic of U.S. foreign policy and President Bush, advocates weakening the influence of the United States and calls the nation ‘the Empire.’ Chavez told his supporters not to raise their hopes that relations with the United States would improve if Obama is elected U.S. President, saying there was little difference between him and Republican candidate John McCain.”

And this is a quote from Hugo Chavez:

“The two candidates for the U.S. presidency attack us equally. They attack us, defending the interests of the Empire,’ Chavez said at a meeting of his Socialist Party. ‘Let us not kid ourselves. It is the Empire, and the Empire must fall. That is the only solution, that it comes to an end.’”

That was President Chavez yesterday. These are the newspaper reports this morning. Rhetoric like that is especially troubling.

But I also welcome some of the more positive trends that have recently come to the surface in Venezuela. While the documents on slain FARC leader Raul Reyes’ laptop computer linking President Chavez to the rebel group are seriously disturbing, I am somewhat encouraged by Chavez’s recent comments calling on the FARC to lay down arms. Likewise, after an intelligence overhaul decree was met with skepticism in Venezuela, Chavez quickly changed course and rescinded the decree.

A New York Times editorial recently explained these actions by saying that "Chavez displayed willingness for self-reinvention that has served him well in times of crisis throughout his political career. Time and again he has gambled by pushing brash positions and policies, then shifted to a more moderate course when the consequences seemed too dire." That is the New York Times editorial.

In the case of the FARC, I hope that we can all count on President Chavez to match his words with actions and do everything he can to bring an end to the FARC's protracted battle against the Colombian Government.

Let me talk briefly about United States policy toward Venezuela. There have clearly been plenty of missteps in our relationship with Venezuela under Hugo Chavez. The Bush administration's rush to recognize a briefly installed coup leader in April 2002, I believe, was a major mistake, and the administration's past efforts to engage in a war of words with Chavez was not a particularly sound strategy either.

But let me say how impressed I am, again, with Secretary Shannon's steady diplomacy toward Venezuela over the past couple of years. Secretary Shannon has led the administration away from rhetoric and toward a more constructive policy in which we avoid responding to President Chavez's ridiculous verbal attacks and accentuate our positive actions in Venezuela and throughout the hemisphere.

On that note, let me say what a mistake I think it would be to add Venezuela to the list of state sponsors of terrorism. Do I think we need to continue to closely monitor Venezuela's links to the FARC and terrorist groups in the Middle East? Absolutely. But designating Venezuela, I believe, as a state sponsor of terrorism would simply hand Chavez another rhetorical victory and bolster his base. I believe it would prove to be counterproductive to the steady diplomacy that Secretary Shannon has pursued in recent years.

As I said at the beginning, I truly want nothing more than improved relations between our two countries, and I think better diplomacy, on our part, is leading us in the right direction.

Recent actions by President Chavez, including his call for the FARC to lay down arms, make me somewhat cautiously optimistic that we can somehow meet halfway and build a better relationship between Venezuela and the United States, and, in that spirit of friendship and partnership, let me be the first to congratulate Miss Venezuela on winning the Miss Universe Pageant on Sunday. Mr. Burton wants to know if she is here.

Mr. BURTON. Is she here?

Mr. ENGEL. I do not think so. If she was, Secretary Shannon, we would have made her the first witness. I am sorry.

But I want to say, I am not sure if there is anything in this or not, but the first runner-up to Miss Venezuela was Miss Colombia. So I think that that might say something.

There is, obviously, so much more to cover, but I will leave things here. I want to give Mr. Burton a chance to make an opening statement.

[The prepared statement of Mr. Engel follows:]

PREPARED STATEMENT OF THE HONORABLE ELIOT L. ENGEL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK, AND CHAIRMAN, SUBCOMMITTEE ON THE WESTERN HEMISPHERE

A quorum being present, the Subcommittee on the Western Hemisphere will come to order.

It is my pleasure to welcome you to today's hearing on Venezuela. I am pleased, as usual, to welcome my good friend, Assistant Secretary for Western Hemisphere Affairs Tom Shannon who has become a regular at our Subcommittee hearings. It's always wonderful to have you here, Tom.

I am holding this hearing, knowing that there is plenty of passion surrounding the Venezuela policy debate, but hoping that we can examine Venezuela and US policy toward the country as objectively as possible. Like many of my colleagues, I have concerns about democracy in Venezuela. But, I want to make it clear from the start that I have no hidden agenda, and that ultimately, I would like to see nothing more than a better relationship between the United States and Venezuela.

As a Member of the Energy and Commerce Committee, I often speak about the perils of US dependence on oil. The United States consumes nearly 21 million barrels of oil per day, and our appetite for oil is growing. I find this reliance on a single resource particularly troubling, because much of it comes from nations that are unstable or unfriendly towards the US. In the case of Venezuela, the petrodollars just keep on rolling in. Petroleos de Venezuela—the country's state-owned oil company—said earlier this month that their net income rose 80 percent in the first quarter of this year as world oil prices soared. And, President Chavez recently called on South American nations to create their own version of OPEC, to be called Petrosur. As we think about the US addiction to oil and its impact on our foreign policy, it is tough to ignore the role that our dependence on oil plays in supporting what New York Times columnist Thomas Friedman refers to as "petro-authoritarian" leaders.

It is hard to look at Venezuela these days and not take note of a number of troubling anti-democratic developments. From the closing down of RCTV last year to President Chavez's allies' recent blacklisting of candidates set to participate in November's local and state elections, it is no surprise that many view democracy as under strain in Venezuela. The December 2007 government raid of La Hebraica—a Jewish school and social club—in Caracas was particularly alarming to me personally, and I was also disturbed to learn that about one-third of Venezuela's Jewish community has fled the country in recent years. I, however, was pleased to see last week that Venezuelan Minister of the Presidency Jesse Chacón met with the Jewish community. I truly hope that this will be the first of many meetings and will lead to better government communication with and treatment of the community. Quite frankly, anything less is simply unacceptable. Finally, let me note that Venezuela's cozy relationship with Iranian President Mahmoud Ahmadinejad is a very serious cause for concern that we are all closely monitoring as are recently revealed ties between two Venezuelan citizens—including one diplomat—and Hezbollah.

But, I also welcome some of the more positive trends that have recently come to the surface in Venezuela. While the documents on slain FARC leader Raul Reyes's laptop computer linking President Chavez to the rebel group are seriously disturbing, I am encouraged by Chavez's recent comments calling on the FARC to lay down arms. Likewise, after an intelligence overhaul decree was met with skepticism in Venezuela, Chavez quickly changed course and rescinded the decree. A New York Times editorial recently explained these actions by saying that "Chavez displayed willingness for self-reinvention that has served him well in times of crisis throughout his political career. Time and again, he has gambled by pushing brash positions and policies, then shifted to a more moderate course when the consequences seemed too dire." In the case of the FARC, I hope that we can all count on President Chavez to match his words with actions and do everything he can to bring an end to the FARC's protracted battle against the Colombian government.

Let me talk briefly about US policy toward Venezuela. There have clearly been plenty of missteps in our relationship with Venezuela under Hugo Chavez. The Bush Administration's rush to recognize a briefly installed coup leader in April 2002 was a major mistake. And, the Administration's past efforts to engage in a war of words with Chavez was not a particularly sound strategy either. But, let me say how impressed I am with Secretary Shannon's steady diplomacy toward Venezuela over the past couple of years. Secretary Shannon has led the Bush Administration away from rhetoric and towards a more constructive policy in which we avoid responding to President Chavez's verbal attacks and accentuate our positive actions in Venezuela and throughout the hemisphere.

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monitor Venezuela's links to the FARC and terrorist groups in the Middle East? Absolutely. But, designating Venezuela as a state sponsor of terrorism would simply hand Chavez another rhetorical victory and bolster his base. It would prove to be counterproductive to the steady diplomacy that Secretary Shannon has pursued in recent years.

As I said at the beginning, I truly want nothing more than improved relations between our two countries, and I think better diplomacy on our part is leading us in the right direction. Recent actions by President Chavez—including his call for the FARC to lay down arms—make me cautiously optimistic that we can somehow meet halfway and build a better relationship between Venezuela and the United States. And in that spirit of friendship and partnership, let me be the first to congratulate Miss Venezuela on winning the Miss Universe pageant on Sunday! I'm not sure if there's any meaning in this or not, but the first runner up was Miss Colombia.

There is obviously so much more to cover, but I will leave things here and introduce our distinguished witnesses.

As I mentioned, Tom Shannon—our excellent Assistant Secretary of State for Western Hemisphere Affairs—will be testifying on the first panel.

We are pleased to have a distinguished group of academics join us on the second panel. Javier Corrales is an Associate Professor of Political Science at Amherst College. David Myers is an Associate Professor of Political Science at Pennsylvania State University. Next, Jennifer McCoy is a Professor of Political Science at Georgia State University and Director of the Americas Program at the Carter Center. And finally, Norman Bailey is Adjunct Professor of Statecraft at the Institute of World Politics and President of the Institute for Global Economic Growth. Welcome to all of you.

I am now pleased to call on Ranking Member Burton for his opening statement.

Mr. BURTON. Thank you, Mr. Chairman. I would like to have my whole statement submitted for the record.

Mr. ENGEL. Without objection, so ordered.

Mr. BURTON. I do not want to duplicate everything that you said, but I do have a few concerns that I would like to mention.

I was just reading here that United States imports of Venezuelan crude oil fell by 7.4 percent this year, to 990,000 barrels of oil per day. Once again, it shows that we have a real dependency on oil from people who really are not, in many cases, our friends. We are importing probably 20 percent of our oil from Venezuela, we are importing a large part of it from the Middle East, and the people of this country are spending tons of money when they fill up their gas tanks. They are spending over \$4 to \$5 a gallon. It costs 80 bucks to fill up your tank.

So I think it is time that this Congress take positive action to move toward energy independence, and I am not trying to say this from a political standpoint. This is just a fact: We dependent on a great deal of our energy from people like Chavez, who has called for the destruction of America, over the long period of time, this "Empire," he calls it.

So I think it is important that we look at this from a national security standpoint, and we should have a bipartisan approach to dealing with this energy crisis because I certainly do not want to be dependent on people that do not like us or hate us in the future. We are already suffering, and I think that is a major issue.

You mentioned the FARC and the laptop computer. I think that is also a troubling thing. I know he has asked the FARC to lay down their arms, but I will be happy when that actually happens. I have met with Mr. Chavez a couple of times, and I have heard him say other things that actually did not come to fruition. So we will have to wait and see, but I certainly hope that he is doing everything he can to stop FARC from their guerrilla activities in Colombia and to lay down their arms.

Hezbollah has some people there on the ground that are working. That is a terrorist group that is a big problem for Israel and the United States in the Middle East. I hate to see Mr. Chavez allowing those kinds of people to work in Venezuela and possibly be a conduit for more terrorist activity, not only in the Middle East but here in our hemisphere.

There are direct flights going from Tehran to Venezuela on a daily basis, and he has had many, I guess, talks and meetings with people from Iran, and I would like to believe that those are not going to be threatening to the United States in the future, but it is a concern, and we have heard some of the rhetoric that emanates from those discussions, and it is something that is very troubling.

He has not allowed several of our DEA agents to get visas. I think there are seven of them that are pending right now. If he were here, I would urge him to allow the DEA agents there. There is concern about the FARC and their drug trafficking. There is concern about drugs coming through Venezuela and into the United States, and I think if they are serious about helping us deal with the drug problem, the drug-trafficking problem, I think that they ought to do everything they can to allow our DEA agents to function down there and to work with them and to make these visas a realistic endeavor.

I think that is pretty much everything I have to say right now. I will reserve the rest of my comments for Secretary Shannon. I do want to say that I know he works very hard, and I look forward to continuing working with him. I just talked to him about possibly having a congressional delegation go down to Venezuela sometime in the future, and I am sure we will be talking with him and the State Department about whether or not that is an advisable thing. If it is, Mr. Chairman, I would like to talk to you about that because I think that meeting with Chavez again and hearing what he has to say and laying it right on the line to him on our concerns might be a beneficial thing.

Many times, because of the media, there is a misunderstanding or a misprotection of facts, and I think that sometimes causes the rhetoric to be even stronger and causes problems to grow at an even more rapid pace.

So, with that, Mr. Chairman, I thank you very much, and I yield back the balance of my time.

[The prepared statement of Mr. Burton follows:]

PREPARED STATEMENT OF THE HONORABLE DAN BURTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

To begin, I would like to thank the Chairman for holding today's hearing addressing an important dynamic within our hemisphere. On November 17th, 2005, we met in this subcommittee hearing room, with Tom Shannon appearing before us for the first time as the newly sworn-in Assistant Secretary of State for the Bureau of Western Hemisphere Affairs, and we discussed Democracy in Venezuela.

The debate almost three years ago appears very similar to today's discussion. We highlighted the fact that the United States and Venezuela had traditionally enjoyed close relations, but that the relationship with Venezuela's President was becoming more strained as democratic institutions eroded, power was consolidated and rhetoric aligning Venezuela's leadership with prominent communist leaders flourished.

Today, as we discuss U.S.-Venezuela relations looking forward, we are facing a very similar situation—now with 272 (originally 400) politicians barred from running for state and municipal elections this coming November, two specific supporters of the Lebanese terrorist group, Hezbollah, working in Venezuela to facili-

tate and support the terrorist organization, and concerns over the treatment of individuals and groups that disagree with the central government's opinions.

Not unlike the past, President Hugo Chavez has recently made promising statements, such as his call for terrorist FARC guerillas to lay down their arms and turn over all hostages, and statements implying openness to renewing drug-fighting collaboration between the United States and Venezuela—a relationship which has been suspended since 2005. I am waiting to see President Chavez follow through with his diplomatic assurances. President Chavez must release the hold on seven pending visas for our DEA agents that have been awaiting their visas for up to 1 full year, and he must stop supporting and harboring terrorists, before his gestures of cooperation can be taken seriously.

With inflation spiraling out of control, crime rates soaring, food prices unstable, and upcoming state and municipal elections in November, Venezuela currently has a lot on its plate. The flow of drugs through Venezuela has increased fivefold between the years 2004 and 2007. Profits from oil production are through the roof, yet Venezuela is seeing a decline in its economic stature. There is no better time for change for President Chavez, for Venezuelans and for the entire Hemisphere.

What we here today, and indeed the people of Venezuela, are waiting for as we look toward the future is for President Chavez to follow through on his statements and promises. Venezuelans have taken to the streets to demand fair access to goods and services and open democratic processes. President Chavez has made statements that he will use oil revenues to increase the economic status of his people, yet Venezuela's economic performance continues to decline. Also, the President has said that Venezuela does not and will not support terrorist activities, and we, like the Venezuelan people, hope to see President Chavez make good on these statements by closing off safe havens to FARC leaders who are seeking refuge in Venezuela.

Freedom from fear of repression, knowledge that terrorists are not harbored within your borders, and access to basic survival needs such as food and shelter should be things that all democratic societies provide. Now is the time for President Chavez to step up to the plate and collaborate on these issues to ensure these basic human rights are guaranteed within his country, to all Venezuelans.

I look forward to hearing from our distinguished panelists on where Venezuela is headed as a country and also in the broader context of the Hemisphere, as well as the potential that President Chavez may decide to play within the rules of democratic governance and follow through on his diplomatic promises.

**Mr. ENGEL.** I thank the ranking member. Thank you, Mr. Burton. I would like to give members of the subcommittee a chance to make brief opening statements, if they so desire. Mr. Sires?

**Mr. SIRES.** Thank you, Mr. Chairman, and thank you, Mr. Secretary, for being here. Again, I know we abuse from time to time, but we do appreciate your comments and your honesty.

I just want to get updates on a couple of issues regarding Venezuela, and, obviously, the rhetoric that comes out of Venezuela, with Chavez, sometimes he reminds me of Noriega. I am particularly interested in the relationship between Colombia and Venezuela.

As of a couple of weeks ago, the President of Colombia visited Venezuela, and I would like to get an update on that.

I am also interested in the treatment of the Jewish community in Venezuela. I know that there has been a large exodus, and, obviously, Venezuela, as it relates to Cuba, I would like to see if I could get an update on that relationship. Thank you very much.

**Mr. ENGEL.** Thank you, Mr. Sires. Mr. Mack?

**Mr. MACK.** Thank you, Mr. Chairman, and also for Secretary Shannon for being with us today.

I will save most of my time for questions, but as I was listening to your opening statement, Mr. Chairman, I agree with most of it, and I have always enjoyed working with you because you do have an open mind to these issues that are sometimes difficult because not everybody agrees.

I do want to talk a little bit about the state sponsor of terrorism. You know, there are criteria and standards by which a country would be placed upon the list, and I think what we have learned about Hugo Chavez and the FARC clearly demonstrates that they should be put on the state sponsors of terrorism list.

One of the problems that I think we are having in Venezuela is the feeling that Chavez can kind of have his way in Latin America and his influences in Latin America. I think this also goes to the inaction of the OAS. I think this committee would do well for itself and for the Congress and for the region if we had a serious look at the OAS in trying to either rehabilitate it or start over because they are standing in the way of progress for freedom and democracy in our hemisphere, and I think it is irresponsible to continue an organization that is set up for failure.

So, Mr. Chairman, I hope, at some point, we can also have a broader discussion about that, and I look forward to the testimony from Mr. Shannon, and I look forward to the opportunity for questions. Thank you, Mr. Chairman.

Mr. ENGEL. Thank you, Mr. Mack. Mr. Green?

Mr. GREEN. Thank you, Mr. Chairman. I would like to have my full statement placed in the record—

Mr. ENGEL. Without objection, so ordered.

Mr. GREEN [continuing]. And, again, like everyone, I want to welcome Secretary Shannon. I appreciate your good work.

Venezuela and the United States, whether we get along with them or not, we are intertwined. We import a less amount of our oil, but we still import a great deal of it, and also Venezuela is a great customer of the United States.

What I am looking forward today, as having dealt with Venezuela myself over the years, Citgo, the oil company owned by PdVSA—the Venezuelan oil company has their headquarters in West Houston, and, up until a year or more ago, they owned a part of a refinery in our district—having worked with them, I want to make sure that some of the things Chavez is now doing, tacking more to the middle, whether it be allowing for the cooperation on drug interdictions, his announcement recently saying that FARC should disband, although also showing that he was supporting them less than a year ago, to see if that is a movement.

I want to caution our committee that some of us are still surprised by what Libya did, on very short notice. So I would hope that we could see some cooperation and an effort with Venezuela, and maybe we can do some of the same things that we saw such success with Libya, which, on a very quick turnaround, decided to get off the terrorist list and also work with us. Although I have to admit, the allegations or allusions that we are an empire; anybody who watches Congress in action would definitely not compare us to the empire in “Star Wars,” so thank you.

[The prepared statement of Mr. Green follows:]

PREPARED STATEMENT OF THE HONORABLE GENE GREEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Thank you, Mr. Chairman, for holding this hearing today and I would like to welcome Secretary Shannon back to our committee as well as our distinguished panelists.

The subject of Venezuela seems to make its way into pretty much any hearing that this subcommittee holds, so I think that it is appropriate that we are going to talk about this today.

Since Hugo Chavez' election as president in 1998, the political and economic situation in Venezuela has drastically changed.

His populist reforms are popular, but with their economy facing dire times, President Chavez's popularity is down.

The inflation rate in Venezuela is the highest in Latin America, and they are experiencing wide-spread food shortages due to the price controls that the Chavez government implemented years ago.

President Chavez also suffered a political setback last December when his efforts at constitutional reform that would allow him to run for reelection failed. The Venezuelan people were clearly sending a message.

As a result, we have recently seen President Chavez take a more moderate stance in relation to the FARC in Colombia and public statements offering to renew cooperation in drug interdiction.

Is this political posturing so that his party does not lose in November?

What about his outspoken support for Iran?

Is Venezuela really going to stop meddling into Latin American affairs and start cooperating with other countries on issues that affect all of us in the Western Hemisphere rather than take an isolationist stance?

The United States is in a delicate position, because whether we like it or not, our economies are intertwined. We are dependent on Venezuela for their oil resources and they are dependent on us as consumers. Citgo owned by the Venezuelan oil company is headquartered in West Houston and a corporate partner in our community.

So where do we go from here, and namely, do you think that President Chavez is sincere in his move to the middle? What does all of this mean for our foreign policy towards Venezuela?

I look forward to the testimony today, and again, thank you, Mr. Chairman, for holding this hearing.

I yield back the balance of my time.

**Mr. ENGEL.** Thank you, Mr. Green. Mr. Delahunt.

**Mr. DELAHUNT.** Thank you, Mr. Chairman, and welcome, Secretary Shannon. Let me echo the compliments and kudos that have been heaped upon you this morning. I think you have served us well. You have served the country well.

I would note the observation by the ranking member, in terms of an opportunity to tamp the rhetoric down. I welcome that, and I think it is a moment in time when we should all embrace that on both sides of the bilateral relationship.

I think it is important to note that, just this month—I think it was on July 8th—our Ambassador to Caracas, Patrick Duddy, engaged in a conversation with President Chavez relative to the issue of drugs. I would hope that that conversation would be pursued on a bilateral basis. I think that that meeting is a signal.

As you are aware, Secretary Shannon, on a trip that I took to Caracas, months ago now, I had an opportunity to meet with President Chavez. He indicated to me that he was willing to begin serious discussions about the draft proposal that has been circulated, both here and in Caracas, relative to the drug issue. Unfortunately, rhetoric got in the way.

After having had that conversation at Miraflores, I left and had an opportunity to have a discussion with the foreign minister. We both addressed cameras in Caracas, indicating that there was a commitment on the part of Venezuela to have these, I think, very critical discussions, and then, later that day, there was an unfortunate remark emanating from Washington that seemed to end that possibility.

That is why I am particularly encouraged to see or hear that President Chavez had this particular conversation with Mr. Duddy, or Ambassador Duddy, who, by the way, I would want to publicly state, I think he is doing an extraordinary job in Caracas. I think he is the right person with the right temperament at this particular time.

I would also note that I think it was the gentleman from New Jersey that indicated that there was a meeting, I think, this past week between President Uribe of Colombia and President Chavez of Caracas. My understanding of that meeting is that it was positive and constructive, as you diplomats would describe it.

We might have an opportunity here. I think we should seize on that opportunity. I think the suggestion, again, by Mr. Burton about visiting Caracas once more with a bipartisan delegation to be led by our chair and ranking member—I would be happy to accompany them, and I would hope that all members of the panel would go—might turn into a very productive session.

I would also note that, in terms of the relationship between the FARC and Venezuela, and I know that you are familiar with the efforts that are being made by some in Congress regarding the release of the hostages, including, obviously, the three Americans, that President Chavez was involved in those discussions, that there were two unilateral releases prior to the rather dramatic, successful, and, I think, unbelievable accomplishment by the Colombian military in releasing the 15 hostages just recently, that, obviously, necessitated, through intermediaries, discussions between Miraflores and the FARC.

So I think we have got to be careful to understand what the relationship between the FARC and the Chavez government truly is.

With that, let me yield back to the chair and thank him for the time.

Mr. ENGEL. Thank you, Mr. Delahunt.

Now, as I mentioned, the witness on our first panel is Tom Shannon, our excellent Assistant Secretary of State for Western Hemisphere Affairs. Let me say, Secretary Shannon, as you can see, there has been a lot of interest in this hearing today. You can see the attendance behind you.

Certainly, the relationship between the United States and Venezuela is something that is very important and very topical, and as I know the rest of the members of the subcommittee are, I am eagerly awaiting your testimony. So Secretary Shannon.

**STATEMENT OF THE HONORABLE THOMAS A. SHANNON, JR.,  
ASSISTANT SECRETARY, BUREAU OF WESTERN HEMI-  
SPHERE AFFAIRS, U.S. DEPARTMENT OF STATE**

Mr. SHANNON. Thank you very much, Mr. Chairman, and thank you to the members of the subcommittee here today. As always, it is a pleasure to be here and a pleasure to have the opportunity to talk with you about such an important issue.

My remarks today will look at the theme of Venezuela from three vantage points: First, the historic context of our relationship with Venezuela; second, the current state of our relationship and the challenges it faces; and, finally, what we can look forward to in the remaining months of this administration.

Our relationship with Venezuela, as has been noted here, is long-standing, broad, and deep, encompassing everything from commerce and culture to education and sports. Our histories have been intertwined since our wars of independence. Francisco Miranda, one of Venezuela's founding fathers, fought in the Continental Army during our revolution and was a colleague and friend of George Washington and Thomas Jefferson. In their turn, Americans fought alongside Miranda and Simon Bolivar during Venezuela's struggle for independence, and the names of some of these American heroes of Venezuelan independence are inscribed today at the Los Proceres Monument in Caracas at Fort Tiuna.

Our economies have also been closely linked. American mining engineers played an important role in the discovery and development of Venezuela's petroleum wealth. American corporations and investors helped develop Venezuela's automobile, banking, manufacturing, and agricultural sectors.

Venezuela, for its part, has been one of the largest Latin American investors in the United States. Venezuela, through PdVSA and Citgo, owns refineries, asphalt, and petrochemical plants, and one of the largest gasoline-distribution networks in our country.

Today, our two countries enjoy a growing economic and commercial relationship. Bilateral trade between the United States and Venezuela exceeded \$50 billion in 2007. The United States exported \$10 billion worth of goods to Venezuela last year, an increase of over 13 percent from 2006. Venezuela's exports to the United States of \$40 billion, 95 percent of which is petroleum, represent a 7-percent increase in monetary value over the previous year.

We are Venezuela's largest trading partner by a factor of two. Venezuela is our second-largest Latin American trading partner, exceeded only by Mexico. Venezuela is among our top-five foreign oil suppliers, and we remain Venezuela's principal customer and energy partner.

We also enjoy extensive cultural and people-to-people ties with Venezuela. The youngest director ever to lead the Los Angeles Philharmonic, the 27-year-old Gustavo Dudamel, who assumes the role next year, is Venezuelan. There are 50 Venezuelans playing on major league baseball teams, nearly 800 in the minor leagues, and distinguished Venezuelans in academia, foreign policy circles, and the media.

Americans have played an important role in helping to build Venezuelan universities, political consultancies, and polling institutions.

Such a rich tapestry of human connection would seem to indicate a positive and friendly bilateral relationship. While this was the case for many years, it is, regrettably, no longer true. Our bilateral relationship today is a troubled one, characterized by resentment, suspicion, and misunderstanding.

For its part, the Government of Venezuela claims that we have practiced interventionism in its political and economic life. It regularly refers to us as an "Empire," as noted by members of the committee. It opposes our initiatives in the Americas and seeks out our adversaries as friends and allies. It has broken off cooperation with us on counterdrug and counterterrorism activity and longstanding

intelligence liaison relationships, shut down military cooperation and security assistance programs, and nationalized the holdings of some American corporations.

From our point of view, Venezuela has added a needless and complicated ideological overlay to a relationship that was characterized historically by a fluid and productive dialogue.

This has made it difficult to address bilaterally our concerns about the Government of Venezuela's behavior. These concerns are well known and relate to authoritarian tendencies and human rights violations domestically and, internationally, meddling in the affairs of its neighbors and promoting a diplomacy designed to undermine our interests.

As a result, and over time, we have taken specific actions to make clear our concerns and limit our engagement with Venezuela. These steps are substantive and not rhetorical. Specifically, we have declared Venezuela to be not fully cooperating in the fight against terrorism; determined that the Government of Venezuela has failed demonstrably in meeting its obligations on our international narcotics agreements and U.S. domestic counternarcotics requirements; rescinded Venezuela's eligibility to purchase most kinds of United States weapons and weapons systems; closed Venezuela's military acquisition office in Florida; arrested unauthorized Venezuelan agents in the United States; denied Venezuela access to Export-Import Bank financing and overseas private-investment corporation coverage; and designated several Venezuelan nationals, under Executive Order 13224 and the Narcotics Kingpin Act, for support provided to Hezbollah and for trafficking illegal drugs.

Venezuela's response to our actions has been to retreat into a distant and sullen relationship. In our occasional efforts to explore the possibility of improved relations, we have focused on areas of clear mutual benefit, such as energy, commercial, and counterdrug cooperation, but we have been rebuffed. The Government of Venezuela's unrelenting anti-American rhetoric and the absolute control exercised by President Chavez over all aspects of our relationship have prevented, until recently, even the most tentative exploration of dialogue.

The resulting standoff has caused great discomfort within the region. Countries with close ties to Venezuela and the United States have had to learn how to navigate around our relationship. Most have resisted Venezuela's efforts to enlist them in a larger crusade against us. With only a few exceptions, the Government of Venezuela's anti-American rhetoric has not resonated well. Over time, it has become tired and ritualistic.

This does not mean that Venezuela's aggressive and erratic behavior has not been a cause of concern in the hemisphere. However, countries around the region have seen the political space open to Venezuela shrinking. There are several reasons for this.

To begin with, the reemergence of countries that have traditionally been regional leaders has constricted Venezuela's diplomatic movements.

Second, Venezuelan setbacks in key international arenas, such as losing its bid for a seat on the United Nations Security Council, were seen as clear evidence of overreach.

Third, some of Venezuela's closer allies have found themselves bogged down in their own internal difficulties and unable to help.

Fourth, the emerging story of Venezuela's illicit relationship with the FARC and Colombia's recent successes have undermined Venezuela's credibility.

These factors have contributed to a growing international perception that Venezuela has hit the limits of its international influence.

Venezuela's neighbors have watched with interest the obvious political challenges that President Chavez faces at home. These include the failure of the December 2007 constitutional referendum, current difficulties in consolidating his single political party, and the upcoming November 2008 gubernatorial and mayoral elections.

Also, they have noticed the emergence and initial consolidation of an effective civil society. The student movement has become an important counterpoint to the government on the issue of civil and political rights. Parents have twice defeated government efforts to impose changes in educational curricula, popular rejection of the harsh, Cuba-style intelligence law, forced President Chavez to send the law back to the National Assembly for reconsideration.

While President Chavez continues to enjoy strong support among important political constituencies in Venezuela, he faces a more complicated internal scenario and must contemplate the possibility of an election in 2012 in which he cannot be a candidate.

In this environment, Venezuela has, for the first time in many years, expressed a willingness to explore improved relations with the United States. President Chavez recently told our Ambassador that he wanted to improve our counterdrug cooperation and remembered with fondness when he could meet with the U.S. Ambassador to discuss bilateral issues. This comment was repeated through Venezuela's official news agency.

We have told Venezuela that we would like to explore this diplomatic opening. Cooperation in the counterdrug fight would be a familiar ground for both governments and would be well received in the region. It would resonate especially well in Hispaniola. The Dominican Republic and Haiti have been the recipients of most of the clandestine air traffic departing Venezuela with cocaine headed for the United States and Europe, and especially West Africa, where the drug trade is exploding and causing instability in the region.

Ambassador Duddy recently sent Foreign Minister Maduro a letter reiterating our desire to work together to confront this challenge, and the Special Coordinator for Venezuelan Affairs at the State Department, Ambassador David Robinson, will be traveling to Venezuela next week.

Mr. Chairman, as we look forward, we operate under no illusions. The rhetoric and reflexive anti-Americanism of the Venezuelan Government has damaged the ability of Venezuela to communicate effectively with us and many of its neighbors.

However, we remain committed to a positive relationship with the people of Venezuela and have the patience and persistence necessary to manage our challenging relationship. In so doing, we will remain focused on our larger, positive hemispheric agenda to consolidate democratic institutions and ensure that the benefits of democracy and open markets reach all citizens.

Mr. Chairman, I am very happy to take question, at this point, and respond to the very specific issues and concerns that were raised in the opening comments. Thank you very much.

[The prepared statement of Mr. Shannon follows:]

PREPARED STATEMENT OF THE HONORABLE THOMAS A. SHANNON, JR., ASSISTANT SECRETARY, BUREAU OF WESTERN HEMISPHERE AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. Chairman, thank you for the opportunity to appear before this Committee today to address the theme: "Venezuela: Looking Ahead."

My remarks will look at this theme from three vantage points. First, the historic context of our relationship with Venezuela. Second, the current state of our relationship and the challenges it faces. And finally, what we can look forward to in the remaining months of this Administration.

TIES THAT BIND . . .

Our relationship with Venezuela is longstanding, broad, and deep, encompassing everything from commerce and culture to education and sports. Our histories have been intertwined since our wars of independence. Francisco Miranda, one of Venezuela's founding fathers, fought in the Continental Army during our revolution and was a colleague and friend of George Washington and Thomas Jefferson. In their turn, Americans fought alongside Miranda and Simon Bolivar during Venezuela's struggle for independence. The names of some of these "American heroes" of Venezuelan independence are inscribed at the "Los Próceres" monument in Caracas.

Our economies have also been closely linked. American mining engineers played an important role in the discovery and development of Venezuela's petroleum wealth. American corporations and investors helped develop Venezuela's automobile, banking, manufacturing, and agricultural sectors. Venezuela, for its part, has been one of the largest Latin American investors in the United States. Venezuela, through PDVSÁ and CITGO, owns refineries, asphalt, and petrochemical plants, and one of the largest gasoline distribution networks in our country.

Today, our two countries enjoy a growing economic and commercial relationship. Bilateral trade between the United States and Venezuela exceeded \$50 billion in 2007. The United States exported \$10 billion worth of goods to Venezuela last year, an increase of over 13% from 2006. Venezuela's exports to the United States of \$40 billion—95 percent of which is oil—represent a 7% increase over the previous year. We are Venezuela's largest trading partner by a factor of two. Venezuela is our second largest Latin American trading partner, exceeded only by Mexico. Venezuela is among our top five foreign oil suppliers, and we remain Venezuela's principal customer and energy partner.

We also enjoy extensive cultural and people-to-people ties with Venezuela. The youngest director ever to lead the Los Angeles Philharmonic—the 27-year-old Gustavo Dudamel, who assumes the role next year—is Venezuelan. There are 50 Venezuelans playing on major league baseball teams, nearly 800 in the minor leagues, and distinguished Venezuelans in academia, foreign policy circles, and the media. And Americans have played an important role in helping to build Venezuelan universities, political consultancies, and polling institutions.

. . . BUT A CHALLENGING RELATIONSHIP

Such a rich tapestry of human connection would seem to indicate a positive and friendly bilateral relationship. While this was the case for many years, it is regrettably no longer true. Our bilateral relationship today is troubled, characterized by resentment, suspicion, and misunderstanding.

For its part, the Government of Venezuela claims we have practiced interventionism in its political and economic life. It regularly refers to us as an "Empire," opposes our initiatives in the Americas, and seeks out our adversaries as friends and allies. It has broken off cooperation with us on counter-drug and counter-terrorism activity, ended long-standing intelligence liaison relationships, shut down military cooperation and security assistance programs, and nationalized the holdings of some American corporations.

From our point of view, the Venezuela Government has added a needless and complicating ideological overlay to a relationship that was characterized historically by fluid and productive dialogue. This has made it difficult to address bilaterally our concerns about the Government of Venezuela's behavior. These concerns are well known, and relate to authoritarian tendencies and human rights violations do-

mestically; and, internationally, meddling in the affairs of its neighbors and promoting a diplomacy designed to undermine our interests. As a result and over time, we have taken specific actions to make clear our concerns and limit our engagement with Venezuela. These steps are substantive, and not rhetorical. Specifically, we have:

- declared Venezuela to be “not fully cooperating” in the fight against terrorism;
- determined that the Government of Venezuela has “failed demonstrably” in meeting its obligations under international counternarcotics agreements and U.S. domestic counternarcotics requirements.
- rescinded Venezuela’s eligibility to purchase most kinds of U.S. weapons and weapons systems;
- closed Venezuela’s Military Acquisition Office in Florida;
- arrested unauthorized Venezuelan agents;
- denied Venezuela access to Export-Import Bank financing and Overseas Private Insurance Corporation coverage;
- designated several Venezuelan nationals under Executive Order 13224 and the Narcotics Kingpin Act for support provided to Hezbollah and for trafficking illicit drugs.

Venezuela’s response to our actions has been to retreat into a distant, sullen relationship. Our occasional efforts to explore the possibility of improved relations focused on areas of clear mutual benefit—such as energy, commercial, and counter-drug cooperation—were rebuffed. The Government of Venezuela’s unrelenting anti-American rhetoric and the absolute control exercised by President Chávez over all aspects of our relationship have prevented, until recently, even the most tentative exploration of dialogue.

The resulting stand-off has caused great discomfort within the region. Countries with close historic ties to Venezuela and the United States have had to learn how to navigate around our relationship. Most have resisted Venezuela’s efforts to enlist them in a larger crusade against us. With only a few exceptions, the Government of Venezuela’s anti-American rhetoric has not resonated well. Over time, it has become tired and ritualistic.

#### LOOKING AHEAD

This does not mean that Venezuela’s aggressive and erratic behavior has not been a cause of concern in the Hemisphere. However, countries around the region have seen the political space open to Venezuela shrinking. There are several reasons for this. To begin with, the re-emergence of countries that have traditionally been regional leaders has constricted Venezuela’s diplomatic movements. Second, Venezuelan setbacks in key international arenas—such as losing its bid for a seat on the United Nations Security Council—were seen as clear evidence of overreach. Third, some of Venezuela’s closer allies have found themselves bogged down in their own internal difficulties and unable to help. Fourth, the emerging story of Venezuela’s illicit relationship with the FARC and Colombia’s recent successes has undermined Venezuela’s credibility. These factors have contributed to a growing international perception that Venezuela has hit the limits of its international influence.

Venezuela’s neighbors have watched with interest the obvious political challenges that President Chávez faces at home today. These include the failure of the December 2007 constitutional referendum, current difficulties in consolidating his single political party, and the upcoming November 2008 gubernatorial and mayoral elections. Also, they have noticed the emergence and initial consolidation of an effective civil society. The student movement has become an important counterpoint to the government on the issue of civil and political rights. Parents have twice defeated government efforts to impose changes in educational curricula. Popular rejection of a harsh Cuba-style intelligence law forced President Chavez to send the law back to the National Assembly for reconsideration. While President Chávez continues to enjoy strong support among important political constituencies, he faces a more complicated internal scenario and must contemplate the possibility of an election in 2012 in which he cannot be a candidate.

In this environment, Venezuela has, for the first time in many years, expressed a willingness to explore improved relations with the United States. President Chávez recently told our Ambassador that he wanted to improve our counter-drug cooperation, and remembered with fondness when he could meet with the U.S. Ambassador to discuss bilateral issues. This comment was repeated through Venezuela’s official news agency.

We have told Venezuela that we would like to explore this diplomatic opening. Co-operation in the counter-drug fight would be familiar ground for both governments, and would be well received in the region. It would resonate especially well in Hispaniola. The Dominican Republic and Haiti have been the recipients of most of the clandestine aircraft departing Venezuela with cocaine headed for the United States and Europe, and especially West Africa where the drug trade is exploding and causing instability to the region.. Ambassador Duddy recently sent Foreign Minister Maduro a letter reiterating our desire to work together to confront this challenge.

Mr. Chairman, as we look forward we operate under no illusions. The rhetoric and reflexive anti-Americanism of the Venezuelan government has damaged the ability of Venezuela to communicate effectively with us and many of its neighbors. However, we remain committed to a positive relationship with the people of Venezuela and have the patience and the persistence necessary to manage our challenging relationship. In so doing, we will remain focused on our larger, positive hemispheric agenda to consolidate democratic institutions and ensure that the benefits of democracy and open markets reach all citizens.

Mr. ENGEL. Thank you, Mr. Secretary, for those very thorough comments, and I appreciate them very much.

In your last few sentences, you talked about democratic institutions in Venezuela, and let us talk about them a little bit.

There has been a recent blacklisting of candidates who were set to participate in November's Venezuelan local and state elections. That is something that, obviously, is very troubling. As you mentioned in your testimony, parents have twice defeated government efforts to impose changes in educational curricula.

Despite all of these things that we see, however, there has been no real attempt to absolutely shut down democratic institutions totally. We know there was a vote where President Chavez tried to consolidate power. It was defeated 51-49, closely, but it was defeated. I am told that members of the opposition, by and large, have free rein to express their views.

So it is sort of a paradox. While we have seen efforts of President Chavez to try to concentrate power and try to perhaps shut down some of the democratic institutions, it is not done by coup; it is attempted by referenda. But then again, there is the blacklisting of candidates who cannot participate in November's election.

So there are kind of mixed signals here, and I am wondering if you could comment on some of that.

Mr. SHANNON. Thank you very much for an important question.

Obviously, as we look at the state of democracy in Venezuela, our focus is institutional and also rights based. In other words, we look at the ability of institutions to do their jobs within a democratic setting and to do them in a constitutional fashion but also understand the degree to which citizens enjoy political and civil rights and can exercise them.

Broadly speaking, the struggle for political power, especially the struggle to maintain a consolidated power by the current government, involves a series of actions that have worried us, on both the institutional side and on the rights side.

You have mentioned some of them already: The decision to close RCTV and deny it its license; an effort to declare certain candidates unable to participate in elections because of ongoing corruption or fraud charges; and efforts to control certain aspects of Venezuela's institutionality, especially its constitutional and supreme court, we have found worrying, and we have expressed this in a variety of fora, both publicly but also in multilateral institutions, such as at the OAS General Assembly.

What is important to note is that democratic space is still open. It has not collapsed entirely, and civil society has shown an ability to exploit that opening and to make their case. I think the defeat of the December 2007 constitutional referendum was an important reference point, for several reasons.

First, the emergence of a student movement was new and unexpected, but it showed an ability to take a rights-based dialogue to the Venezuelan people and have it resonate in a dramatic way. One of the reasons it resonated is that the student movement did not identify itself either pro or against government; it was in favor of the rights of people to express themselves and especially of RCTV and other media institutions.

I also think the fact that President Chavez, in the course of the 2007 referendum vote, lost several million voters who simply did not show up to vote, and, obviously, did not show up as a way of sending a very strong message that they had concerns about governance issues, indicates that the democratic space, democratic principles and democratic activity, are alive in Venezuela, that there is a capacity to organize and express and that, as civil society consolidates itself, that we are looking ahead, I believe, to elections in November 2008 that will be important ones.

Mr. ENGEL. Thank you. When I recently led a codel to a few countries in South America, including Bolivia, we had expressed to Evo Morales, the leader of Bolivia, that the Iranians—we were very much chagrined that he was allowing the Iranians to build a radio and TV station that would be able to be broadcast throughout South America.

Likewise, the ties between Iran and Venezuela, to me, are very troubling. Iranian President Ahmadinejad has visited Caracas three times since 2006, and President Chavez has visited Iran several times as well. The two countries have signed a variety of agreements in agriculture, petrochemicals, oil exploration, and other areas, and weekly flights, as was mentioned before, between the two countries began last year.

According to the State Department's Annual Terrorism Report, passengers on these flights reportedly have not been subject to immigration and customs control at Simon Bolivar International Airport.

So I would like to hear, specifically, what concerns do you have about Venezuela's ties with Iran? What about Iran's increasing inroads in other countries, such as Bolivia, in South America? And, specifically, what concerns do you have about the flights between Caracas and Tehran?

Mr. SHANNON. Obviously, anything that involves Iran gets our attention, and, in many instances, our immediate concern.

We understand Iranian efforts in this region as an effort to show that it has a capability to build relationships with countries in a natural area of United States influence during a period of time when Iran faces U.N. Security Council sanctions and enormous international pressure regarding its nuclear weapons program. There is no doubt that President Chavez today is the prime promoter of Iranian relations in South America and Central America.

There are many countries in the region that have diplomatic relationships with Iran and are able to manage them in a way that

we consider to be responsible and especially are able to keep a close watch and tabs on the activities of Iranian intelligence officers.

What worries us about the relationship with Venezuela is that that kind of control and supervision does not seem to be present. You note the frequency of the air flights. You note that there are some indications that people coming on those flights do not pass through normal customs and immigration procedures, and, again, we think this is disturbing and a mistake, and we have said so publicly in a variety of environments, and we have said so to Venezuela.

In this regard, what we need to be doing, effectively, is constantly reminding our neighbors that the evidence of Iranian ties to Hezbollah, and especially ties to terrorist acts in Buenos Aires, in both the bombing of the Israeli Embassy and the bombing of AMIA, make it very clear what Iran is capable of, and that we hold countries responsible for the security of our diplomatic institutions in those countries.

Mr. ENGEL. Let me ask one final question, and I touched upon it in my remarks, and you just mentioned the bombing of AMIA and of the Israeli Embassy in Buenos Aires, with Iranian complicity, of course.

Many of us are concerned about anti-Semitic rhetoric coming from the Chavez government and media outlets close to the state, as well as two raids on a Jewish community center in Caracas in 2004 and 2007, ostensibly looking for guns, which was ridiculous, and, of course, none were found.

As I mentioned in my remarks, I was encouraged by the recent meeting between the Minister of the Presidency, Jesse Chacon, and the Venezuelan Jewish community, and I am also told that there are going to be some other contacts as well with Jewish communities, not only in Venezuela but in Jewish communities and organizations around the world.

So I want to just ask you, what is your assessment of the Chavez government's treatment of Venezuela's Jewish community, and how, specifically, is the State Department addressing these concerns, and what do you think Congress should do to assist the Jewish community in Venezuela?

Mr. SHANNON. Well, we welcome the willingness of members of the Chavez government to meet with the Jewish community and to listen to their concerns.

This has not happened often enough, and this is really part of the problem because, while President Chavez himself has insisted that anti-Semitism is not part of his larger political movement, the truth is that, on the far ends of Latin America's political spectrum, both at the far-left end and at the far-right end, anti-Semitism has been present for a long time because it fits nicely into the conspiratorial mind-set that one finds on the far ends of political spectrums.

The unfortunate truth is that the Venezuela news agencies and some government officials have spoken in a way that is very worrisome to the Jewish community and very worrisome to anybody concerned about anti-Semitism.

We have regular contact with the Jewish community in Venezuela through our Embassy. Our special envoy in the fight against

anti-Semitism, Mr. Rickman, was recently in Caracas meeting with the Jewish community.

As you noted, the Jewish community has declined in time by about one-third in Venezuela. Some of this is for economic reasons, but some has to do with a general sense of discomfort, not only because of acts, such as the raid on the school you mentioned, but also because of a commitment to world leaders, such as the leader of Iran, who are explicitly committed to the destruction of the State of Israel.

Again, what we have found is that maintaining close contact with the community, understanding their concerns, and then finding ways to express those concerns to the Venezuelan Government has been helpful, and the degree to which our Congress can participate in that, either through visits to the region or by receiving people here, it would be very helpful.

Mr. ENGEL. Thank you. Some of the rhetoric that you mentioned has been coming from the government, and some of it has been attributed to Mr. Chavez himself, and it certainly is very troubling and something I am going to monitor very, very carefully. Thank you. Mr. Burton?

Mr. BURTON. Thank you, Mr. Chairman. Mr. Shannon, if you might take your pencil in hand, I have a number of questions that I would like to ask, and then you can answer them one after the other.

The drug trafficking has increased from 57 metric tons in 2004 to almost five times that much, 250 metric tons of cocaine, in 2007, and I have got a map here that shows where they are flying right to Hispaniola and the Dominican Republic and Haiti, most of them, but they are also going through Central America—it looks like Mexico and some of the other South American countries. I would like a current update on that and whether or not there is any indication that that is going to be curtailed by the government down there.

Also, the chairman just talked about the terrorist group, Hezbollah, having access to Venezuela and having people there that are actually getting support from the Venezuelan Government. There are indications from our Treasury Department, I believe, that they are getting actual financial support from Venezuela.

Also, these people who are coming in from Iran on these direct commercial flights, I understand, they do not even have to go through machines that would indicate that there is an explosive device or some kind of a weapon. That is also a concern because these people that come in on a visa there to Venezuela, and they end up going all over Central America and possibly into the United States. So I would like to have a comment on that.

The oil imports from Venezuela have dropped dramatically, from 1.28 million barrels a day to 1.13 million barrels a day, and the last time it was that low was when they had a strike down there, and that, of course, is hurting the United States because of the price of crude oil and the price of gasoline.

It is obvious, and it is being stated by the Venezuelan Government, they are trying to find other markets, i.e., China and India, to sell their oil to. I would like to get your assessment on what that means for the United States, as far as our energy problems are

concerned. I do not know whether you can speculate on what we should do about that.

I mentioned Hezbollah setting up shop in Venezuela; if you would allude to that.

I want to talk about something you probably do not have any knowledge of, but I wish you would go back to the State Department and the administration. These light bulbs that they are going to give to the United States to help people with their energy costs; they have mercury in them, and those light bulbs are made in China, and when those light bulbs are broken, there is a serious health risk, and we have had people who have suffered health problems because those light bulbs broke because they are made with mercury in them.

They do save energy, but they also provide a real serious health risk, and if you cannot answer the question on that, I wish you would go back to the administration and our health agencies and say, and we are mandated next year to start using those light bulbs, everybody in this country, and they have a toxic substance in them.

Mr. Chavez has called for a new dialogue between the United States and Venezuela, and, as I said before, one of my colleagues, Mr. Delahunt from Massachusetts, indicated that he thought that might be a good idea. I would like to get your initial response to that, and if you want to, as I said before, if you want to talk privately, if you want to contact us later and let us know what you think would be advisable, I would like to know about that, too. With that, I yield to you, Mr. Secretary.

Mr. SHANNON. Thank you very much. I will address each of the questions in turn.

In regards to drug trafficking, there is a reason why we are seeing an increase in the amount of drugs traveling through Venezuela, and that is an effective air-interdiction program in Colombia and in Brazil so that those who traffick drugs and have to traffic them by air into the Caribbean know that what they need to do is move them quickly out of Colombia in short hops into Venezuela and then use Venezuela as a trampoline or a platform either to fly into the Caribbean to Haiti and the Dominican Republic, and, in some cases, to Mexico and Central America, but also to make the longer hop to West Africa.

Because of a lack of radar capability and air-interdiction capability and a structured interdiction program, these kinds of drug traffickers have pretty much free rein, and this is why we are seeing an enormous increase in air tracks coming out of Venezuela.

Recently, we invited a group of Venezuelan journalists to visit JIATF South in Key West to look at our understanding of the drug problem in an effort to enhance understanding in Venezuela of just how dangerous this is for Venezuela over time because no matter how successful their own unilateral interdiction efforts might be, they simply cannot control this flow of drugs, and it has a huge security impact inside of Venezuela but also outside, as I noted, both in West Africa, and also in the Caribbean.

Again, this is why we view with great interest the offer made by President Chavez to look at enhancing our cooperation. But we would also note that for this cooperation to be effective, it cannot

be only with us. It has to be with other interested parties. It has to be with Great Britain, it has to be with members of the European Union, and, ideally, it would also be with those countries in the Caribbean that feel themselves quite exposed and quite unattended to by Venezuela as they face a big trafficking problem.

In regard to Hezbollah support and the presence of Iranians, I noted that this is a big concern for us. The fact that these flights seem to come and go, oftentimes with only cursory immigration and customs checks, gives us very little insight into who is traveling into Venezuela and where they go beyond Venezuela.

So, again, we continue to talk, to the degree possible, with the Government of Venezuela, but especially with Venezuela's neighbors, to underscore our real concern about the identities of who is coming and going and to what degree they might have ties to Hezbollah or other dangerous organizations.

In regard to the drop in oil imports and the expressed desire to look for other markets, President Chavez and his government have said, on several occasions, that they would very much like to reduce their dependency on the United States market, which is almost total, and look for other energy partners, whether it be China or others.

The problem they face, of course, is the nature of their oil, which is a heavy crude and a sour crude that requires very sophisticated refining capabilities, most of which exist only in the United States. So, effectively, to change its energy relationship with the United States and diversify, Venezuela would have to invest enormous amounts of money in building similar refineries elsewhere in the world, and, up to this point, it just has not been able to do that.

That said, it is important to note that the energy situation in Latin America is changing. Trinidad and Tobago is consolidating itself as a major supplier of petroleum and gas, both to the East Coast of the United States but to other countries in the region. The Camisea project in Peru will be online in the near future and will be supplying natural gas to the West Coast of the United States and to Mexico, and the oil finds that Brazil has discovered dramatically alter Brazil's status as an energy supplier, both in petroleum and gas.

I think what we will be seeing, over the next decade, is that Venezuela's role as an energy supplier will begin to decline, and other countries will emerge as more important suppliers of petroleum, but, more importantly, countries like Brazil, through Petrobras, will have worked to develop modern institutional structures to manage their exploitation and development of their oil industry and will be very, very effective partners, whereas PdVSA's capacity and capability, obviously, is in decline.

In regard to light bulbs, sir, I am afraid I am going to have to get back to you on that. I understand the concern, so we will make sure that the appropriate members of the administration are aware of that.

Then, in regard to dialogue, Members of Congress have played an important role in maintaining channels of communication open with the government of Hugo Chavez, and I realize it has not always been easy. I appreciate the role that you have played and

that others have played in the Congress. Mr. Delahunt is not here, but he has also played an important role in this regard.

From my point of view, it is important to maintain that avenue of communication because it is important for Venezuela, and especially President Chavez, to understand that the kinds of concerns we have are not particular or peculiar to this administration. They really resonate throughout the Congress and throughout the larger North American society.

Mr. BURTON. Thank you, Mr. Secretary. Mr. Sires?

Mr. Sires. Thank you, Mr. Chairman. Thank you again, Mr. Secretary.

This perceived change in attitude by Chavez; do you think it is related to the setback that he has had politically in the last year? It seems like maybe he is playing with being a little bit coy because of the elections that are coming up in November.

Mr. SHANNON. Mr. Chavez is an astute politician, and he finds himself in a difficult moment. As I mentioned, he has suffered a series of rough moments domestically, he has faced some rough moments internationally, and he recognizes that he needs to consolidate his power base internally and protect himself internationally. This could very well be one of the reasons why he has decided that this is an important moment to reach out.

That said, I think we have to determine whether or not this offer is a serious one, and so we have to engage and make clear that we are prepared to sit down and look at how we can improve our counterdrug cooperation in order to determine whether or not this is just a ploy to defuse some internal problems and to show a better face internationally, or whether or not it really is reflective of a recognition that drug trafficking poses a significant internal security threat to Venezuela and a public security threat to Venezuelan citizens that needs to be addressed.

In your statement, you spoke about Chavez probably hitting his limit on international influence. With all of that oil and the energy crisis that we have, that can change in a moment. I do not see that as limiting his international influence.

Mr. SHANNON. Money is an important motivator of relationships, especially internationally, and the degree to which oil prices continue to rise and that Mr. Chavez has additional resources at his disposal obviously will help him diplomatically, but, in the region itself, I think there is an understanding that a political phenomenon, which, at one point, seemed unstoppable inside of Venezuela and seemed to have enormous resonance beyond Venezuela, now appears less steady and less powerful.

The consolidation of leadership elsewhere in the region and the emergence of new factors, such as I mentioned, the oil and gas finds in Brazil, our unwillingness to do biofuels cooperation with Brazil, the hostage rescue operation in Colombia, and the clear evidence now of an ascendant Colombia that has made enormous steps forward in consolidating its own public security system, but also projecting itself again into the region in a reasonable way; I think it means that the space that President Chavez has to operate in has been limited.

It does not mean that his influence disappears; in fact, quite the contrary. I think it will be a considerable factor in the region, but

I really do think we have seen high tide, and I think it is starting to ebb.

Mr. SIRES. How much was Chavez hurt by the fact that his behavior after the rescue by Colombia, where he said he was going to send the army to the borders, and his name appeared on the computers? How much was he hurt by that because he did not come across as very astute in his actions?

Mr. SHANNON. I think the threat to send troops to the border provoked profound concern throughout the region because the last thing anybody wanted to see was armed conflict along the Venezuelan-Colombian border, and there was a huge effort made diplomatically to kind of pull him back, and that was, I think, a useful moment, as the region understood that their larger projects of South American integration really could be at risk because of a specific dispute between Colombia and Venezuela.

One of the larger impacts that the hostage rescue had, and also Raul Reyes' tapes, is that, first, the tapes highlighted the relationship between the FARC and Venezuela, which went far beyond anything Venezuela had ever admitted to and far beyond what most people were prepared to accept or understand as real. The fact that there was this closeness of relationship and this closeness of dialogue, I think, caused profound concern among most of Colombia's democratic partners and our democratic partners.

Again, in regard to the hostage release, the ability of the Colombians to do this, to rescue these hostages, and then the Colombian decision to no longer require or need international mediation to address the still-existing hostage problem, but to attempt to communicate with the FARC directly has really kind of closed that space for direct foreign participation in mediation, and that means it has closed that space for Venezuela.

Mr. ENGEL. The gentleman's time has expired, but I am going to let him ask one question on Cuba, which he had mentioned in his opening statement. So if you want to ask that question, I will allow that.

Mr. SIRES. I am sorry. Finally, how is the relationship with Chavez and the Island of Cuba? Just an update. I know what the relationship is.

Mr. SHANNON. Obviously, this is a very important relationship for Venezuela because an ability to connect to a Cuban revolution that has historically been hostile to the United States has been an ideological north star of sorts.

What has been interesting to note inside of Cuba, at this point, is that the relationship, historically, has been between Hugo Chavez and Fidel Castro, and President Chavez has really had to work hard to build a relationship with Raul Castro and with those around Raul Castro who play very important roles in the day-to-day governance of Cuba.

There is an important energy and financial relationship that still exists and has a big influence on how the Cuban Government behaves toward Venezuela, but, at the same time, other countries in the region have recognized that an exclusive relationship between Cuba and Venezuela is not healthy.

It is not healthy for the region, it is not healthy for Cuba, and it is especially not healthy for any hope of promoting a larger

democratic transition inside of Cuba, and, therefore, we have seen efforts by the Brazilians, by the Uruguayans, by the Mexicans and others to begin to build relationships with Cuba that offer Raul Castro and his government options that are not Hugo Chavez.

Mr. ENGEL. Thank you.

Mr. SIRES. Thank you, Mr. Chairman. Thank you very much.

Mr. ENGEL. Thank you, Mr. Sires. Mr. Mack?

Mr. MACK. Thank you, Mr. Chairman.

We have heard a lot on the committee so far about talking and meeting and questioning whether or not some of the recent statements and actions—"inactions," I should say, but statements of Hugo Chavez, if somehow this is a change in attitude or a change of direction. I would submit that it is a charade.

We know what he is after. He wants to be President for life, and that goal of his has not changed. So, in your opinion, do you agree with that? Do you agree that the things that he is saying now are just attempts to kind of calm the waters so he can make another run at this constitutional referendum to allow him to be President for life?

Mr. SHANNON. I think President Chavez's recent statements, whether it is related to the FARC or related to our counterdrug cooperation, are driven by circumstances. But whether or not there is a charade is something we have to see, and, therefore, we have to explore this option. We have to take it seriously because our interests are huge here.

The committee noted the dramatic increase in the movement of drugs through Venezuela. It is in our interest to try to find a way to stop it. It is in our interest to continue to remind President Chavez and Venezuela that this has a very corrosive impact on the region and beyond the region, in Africa and in Europe.

So we will find out very shortly whether or not it is a charade by how he responds to our willingness to sit down and talk with him.

In regard to his own personal ambitions, there is no doubt that this is a very ambitious man who believes, in his heart, that the success of his Bolivarian Revolution requires him to be a central actor politically inside of Venezuela.

But, again, the reality, at this point, is that he has no constitutional mechanism to perpetuate himself in power, and unless he finds a way to address the constitutional restrictions and limits on power, he will not be a candidate in 2012, but, obviously, I do not think he has given up.

Mr. MACK. Just so we all understand, this is a government, Hugo Chavez, where there are human rights violations, supporting terrorist organizations, allowing drug trafficking through his country where he wants to be President for life, blacklisting potential political opponents, and on and on and on, and somehow a few statements from Hugo Chavez; there are some, it sounds to me, anyway, either in the Congress or on the committee, who think that this is not some sort of ploy. Like you said, he is a political guy, and he is going to do whatever he has to do to win.

I would suggest to the committee that the couple of free trade agreements that are pending in Latin America; you talk about that open space. If we do not act, and if we do not pass these free trade

agreements, one, we send a message to the rest of Latin America that they need to question whether or not they can count on us, which creates more space for Hugo Chavez to spread his influence with oil money.

So I would suggest that the committee take a leadership role in trying to push the leadership in the Congress to pass the free trade agreements. I would also suggest that the committee work hard on reforms to the OAS because we need to have, again, when you talk about that open space, if we had a stronger organization, we would be able to limit that space available for Chavez to spread his Bolivarian Revolution, and I would just like to get your thoughts on some of those.

Mr. SHANNON. One of our principal focuses in addressing the larger political issues of the region has been to build a positive agenda, which is all about working with like-minded countries with commitments to democratic values, and which share our understanding of the importance of markets and also share the importance of linking economic opportunity and capacity through investing in people.

One of our most effective tools in addressing the charges addressed by authoritarianism in the region is to show that our democratic partners can be successful in consolidating a broad commitment to the values and economic understandings that we have.

One of the most important tools that we have had in this regard have been free trade agreements, and the 10 free trade agreements that this administration has negotiated and concluded have really built a virtual free trade area of the Americas that stretches from Canada to the tip of Chile and encompasses two-thirds of the GDP of this region that creates, I think, a very important strategic platform that allows the region to reach across the Pacific into the dynamic economies of Asia and also allows a very new and, I think, creative conversation with the Mercosur countries.

So it is no secret that we believe that quick consideration of the Colombia Free Trade Agreement and the Panama Free Trade Agreement, consolidating what we have accomplished over the past many years, would be an important step forward. But I would also note that if this Congress is looking for some kryptonite that can be used to address authoritarianism, it is here in the Congress. It is called the Colombia Free Trade Agreement.

Mr. MACK. If you would just also—thank you—address the OAS and the concerns that I have with them.

Mr. SHANNON. The OAS, like any multilateral institution, is only as good as its member states, and we are in an important and fascinating moment in the Americas right now, where many countries are beginning to redefine their national identities and redefine their national interests and, in the process of doing this, are looking for new ways to communicate and new ways to have political dialogue and political cooperation.

We are seeing an explosion of integration efforts and collaboration and cooperation efforts throughout the region, whether it is the Caribbean single market, whether it is CAFTA, whether it is the Central American Integration System, whether it is the Andean community, whether it is Mercosur, whether it is a larger union of South American countries, and, in this environment, the OAS

has really been challenged to remain relevant, and it has sought to do so through instruments like the Inter-American Democratic Charter and by using the Summit of the Americas process to identify and implement a larger hemispheric agenda.

It needs to be strengthened, and in order to strengthen that, it requires constant attention from the United States, but it also requires constant attention from some of the larger countries in the region.

We have been thankful that Canada is now a member of the OAS. We think that has been a very, very helpful development, but we also believe that countries that are playing important roles in other kinds of integration efforts—Mexico, Brazil, Argentina, Peru, Colombia—but also countries that tend to operate as blocs, especially CARICOM, can play a much stronger and more important role in the OAS and can actually take advantage of some of the institutional capabilities that the OAS brings to the region.

So I think the OAS is an institution that has been around too long to just walk away from it, and I am worried that if we walk away from it, we will actually see, in the short term, a fragmentation in the hemisphere that would not be in our interests. But there is no doubt that the OAS can be better, there is no doubt that it can be more effective, and we need to work toward that, but we will not be successful unless some key members of the OAS make a similar commitment.

Mr. ENGEL. The gentleman's time has expired. Mr. Klein?

Mr. KLEIN. Thank you, Mr. Chairman, and thank you, Mr. Secretary. Nice to see you.

Mr. Mack and I are both from Florida, and, as a result, when there is a bump in the road in Latin America, we feel it a little more particularly in our area because of the communities that we serve, and, of course, there is a lot of motion, a lot of passion, a lot of business interests and other things. So we are very serious, as everybody on this committee is, in terms of trying to deal with Venezuela.

Trade is an important part, and I think that all of those trade agreements that are being considered need to be advanced and find the right ways to accomplish them, and if there are some nicks there, we need to work those out. I do not think there is any question about that.

But I would also like to suggest that trade is not the only answer, and I think that this administration and previous administrations, for quite some time now, have not dealt with Latin America in the way that they should have, in terms of full engagement. Full engagement includes economic, also includes getting in underneath and not creating the vacuum that Mr. Chavez has found, this niche of opportunity, in providing healthcare or other kinds of social services to get the attention of some of the people in these regions. Castro did this for a while with doctors.

One of the questions I had is there is this view that you are presenting the possibility that some of the expressions may be changing, and I would certainly suggest that there is a lot of skepticism in all of this, but all of that being said, there is a lot of money on the table. Venezuela will continue to have flush resources because

of the price of oil, and nobody seems to think that that is going to be going down, so there is going to be more and more money.

What do you see as the status of Chavez's continued view of providing these kinds of, to the lowest levels in the communities, the rural areas, the kind of support that he has—is this a sustained kind of thing? Do you see this changing? How do you see other countries as viewing this?

Mr. SHANNON. Thank you very much. I think you have made some very important points, especially the recognition that full engagement is required to address the challenges that democratic governments face in the region today.

Obviously, facing the huge social agenda of poverty, inequality, and social exclusion cannot be addressed only through trade. It has to be addressed by building human capacity and by investing in people.

Hugo Chavez has, obviously, been very successful at exploiting the seam between economic prosperity that is driven by trade and the effort to build the capacity to take advantage of opportunity through human investment, by trying to identify resources, both money and petroleum, that allow these countries to meet some of the big budget problems they face but also some of the big social problems they face.

What we are seeing, however, over time, are several things. First, on the energy side, there is enormous political pressure among many countries to do deals with Venezuela because of the short-end financing, which is very, very attractive, especially for countries that are seeing an increase in oil prices really hit at their public sector budgets.

But there is a way to deal with that more broadly, and, ultimately, from our point of view, the temptation of accepting short-term financial gains for long-term financial cost is not the right approach. We really need, as a country, the United States, but also operating within multilateral institutions, to be building a capacity to help these countries, especially the most vulnerable ones in Central America and the Caribbean, to back fill their public sector budgets on the social side so that they can address some of the big social-investment issues that they cannot address right now because of energy costs.

On the money side, we are finding that Venezuela's ability to provide money is having less and less of an impact, especially on the development side. There is very little that seems to show that the money he is providing is actually having the impact that people want it to have, which is building a capacity to take advantage of economic opportunity.

Mr. KLEIN. Again, I think that is something that I would like to develop a little further after this meeting, but, again, I think we are very concerned about that long-term impact and what the impact of our larger industrialized friends—Brazil, Argentina, in that area—how they are dealing with this.

The other question is of a different nature. I know the chair brought this up, but I want to reinforce this. There has been concern, for quite some time, about the Jewish community in Venezuela, and there are some different communications that are coming out of the community, but there continue to be statements

about Christ killers and the human resolutions, and things like that. What is the likelihood, in your view, of any kind of physical attack by extremist groups funded by the government or others inside Venezuela?

Mr. SHANNON. As I noted, we are very concerned about anti-Semitism in Venezuela. Our Embassy has regular contact with the Jewish community, and, recently, Mr. Rickman, our special envoy on issues related to anti-Semitism, traveled to Caracas and had an opportunity to meet with representatives of the Jewish community, and this is something we track very closely. We have been worried by, not only the rhetoric but by some very specific actions that really appear to be acts of intimidation like invasions of schools and other properties.

Historically, Venezuela has not engaged in that kind of political and physical intimidation of the Jewish community, and this is why we are so worried about it. But it also is a point of interest in our contact with the Venezuelan Government, underscoring that this has an enormously corrosive impact on Venezuela's image in the region, but especially in the United States.

In terms of the possibility for physical violence, I would like to say that it is minimal, but, again, we are maintaining very close contact with the Jewish community, and we will be focused on that.

Mr. KLEIN. Thank you.

Mr. ENGEL. The gentleman's time has expired. Mr. Green?

Mr. GREEN. Thank you, Mr. Chairman. I appreciate both your questions and our colleague from Florida's question concerning the Jewish community.

I know, when we were in Argentina, the President of Argentina, President Kirchner, was very proud of having visited Venezuela and going to the site where there were some questions about discrimination and the actions against the Jewish community.

So I can see what you are saying, that the rest of Latin America does not share that, and I would hope President Chavez, who I expect is listening today and watching, if he wants to, would know that we may disagree on some things, but that is something that is over the top.

I know we have experienced President Chavez's efforts in other parts of Latin America, whether it be Nicaragua; obviously, Colombia; Ecuador; and Bolivia and elsewhere. But I guess I need to start off by saying, I do not have any problem with somebody using their natural resources to help with the healthcare or the education of their citizens. In fact, I will remind some of my colleagues that, in the State of Texas, we used the royalty from our oil wealth to fund the University of Texas and Texas A&M and their institutions, and that was a direct from literally 150 years ago.

So I do not have any problem with that. My concern is that if it is actually working in raising the education level and the healthcare level of the people of Venezuela, or is it just for the press releases and the public show? Do we see that, or is there something from our Embassy or the people of Venezuela?

Mr. SHANNON. I think the fact that President Chavez continues to enjoy broad popular political support among the lowest social sectors of Venezuela indicates that his social programs have had an impact that is viewed as positive, and there is no doubt that he has

created a political space and a political voice for some in Venezuela that historically have not had that voice and that he has provided state resources in areas that historically have not had those resources, and that is positive.

However, as we look at this more broadly, we do not see the investment in infrastructure capability to sustain that. We do not see the job creation. We do not see the building of a sustainable healthcare effort that is really going to be required to link economic growth and increased healthcare and educational opportunity.

In other words, we think an opportunity is being missed to take advantage of this concentration of resources in a much neglected sector and link it to an economy that really should be creating jobs, that should be developing infrastructure, and that should be making very clear that Venezuelans can hope for more than a daily meal and a trip to the public health clinic but actually can use those as springboards to a better future for themselves.

Mr. GREEN. And that is the concern that if you go to school, are you actually getting something that you can turn into a skill or an education to be able to not only help yourself but help your country at the same time? That is the long-term goal, I think, that Venezuela should have and, frankly, our country should have for our own constituents, and that is my concern.

I also share the disparity in the numbers of available capital for infrastructure in the energy sector because I think we have seen—of course, there are varying numbers, depending on whether it is the Venezuelan Government or someone else, that talk about the continued reduction in oil that is able to be exported because they are losing the product. I am real familiar with Mexico and PEMEX and their problems. In Venezuela, it seems like they are going down the same road.

You do not want to kill the goose that lays the golden egg. You want the money for healthcare, and you can create a pretty good industry out of educating folks to do healthcare and then providing that quality healthcare in the community.

Can they do both? Can they do the education side and the healthcare side and still invest in their infrastructure to continue producing hydrocarbons?

Mr. SHANNON. This is the big question, and this will determine Venezuela's future.

Our own view is that Venezuela had a great opportunity to connect with some of the most dynamic, cutting-edge companies and institutions in the world, to take an enormous resource and exploit it to the point where Venezuela changes its strategic relationship with people and also creates internal wealth that allows them to draw the connections that you have highlighted.

Again, our own view is that, by stepping away from these international partners and by centralizing not only energy production but different kinds of production in a public-sector-driven economy, it actually limits Venezuela's opportunity to promote economic growth in the future.

Mr. GREEN. And, again, you can buy some of the technology that he has lost from the Iranians or someone else, but, again, it still will not replace what they have given away or lost.

Thank you, Mr. Chairman. Thank you for having the hearing, and I appreciate the secretary being here.

Mr. ENGEL. Thank you, Mr. Green.

Mr. Secretary, I wonder if I can just ask a couple of questions touching on some of the things that I mentioned in my opening statement, if you could give us some additional details.

Some Members of Congress have called on the Bush administration to designate Venezuela as a state sponsor of terrorism. Mr. Mack mentioned it in his opening statement, and others have talked about it. I know that you cannot publicly discuss the internal process involved in making such a designation for Venezuela, but can you tell us what specifically such a designation would mean for United States-Venezuelan economic and political relations?

On the other side of the coin, some argue that designating Venezuela as a state sponsor of terrorism would simply play into President Chavez's hands and bolster his base. Do you agree with this analysis, and what can you tell us about the administration's thinking about the possibility of designating Venezuela as a state sponsor of terrorism?

Mr. SHANNON. Thank you. The question you have identified is a delicate one, but it is an important one, and it needs to be addressed, I believe, in as direct and open a way as possible.

Obviously, designating a country to be a state sponsor of terrorism is a huge step. We only have a handful of countries that have been so designated, and none has been so designated recently. The impact of such a designation is significant.

It involves restrictions on U.S. foreign assistance, a ban on arms-related and nuclear-related exports and sales, controls on exports of dual-use items, and imposition of a variety of financial and other restrictions, and this is just the beginning. Depending on the industrial structure, the investment structure, and the other legal tools available to us, the impact on our relationship can be broad and dramatic.

As we look at Venezuela's relationship, especially with the FARC, and a lot of this is based not only on the Raul Reyes tapes and also those that come from Ivan Rios and other members of the secretariat, but also on years of looking at the FARC, we still have some steps to go in determining certain aspects of that relationship. So we are not prepared to declare, one way or another, in terms of state sponsorship of terrorism.

However, it is important to note that there is a relationship that exists between Venezuela and the FARC. Although it is a relationship that, from what we understand, really involves a small group of people very close to President Chavez who have been assigned with managing the relationship with the FARC and doing so in a way that enhances Venezuela's ability to gain political leverage inside of Colombia, and that has involved several things.

It has involved working to create secure ingress points for weapons and ammunition. It has involved acting as go-betweens between members of the FARC and members of the international-arms-selling community, especially those who operate on gray and black markets. It has also involved, in some instances, the possibility—we have not confirmed this—but the possibility of cash

transfers to the secretariat at a moment when the secretariat was facing a liquidity crisis because of the success of the Colombian Army's offensive against the FARC.

This is all very worrisome to us and is indicative of a relationship that goes far beyond the release of hostages. It has a strategic purpose to it, and we have said, on several occasions, publicly, that with a broad understanding and recognition of the nature of the relationship, that Venezuela faces a big question, and that question is, will it attempt to use its relationship with the FARC to bring peace to Colombia, or will it continue to conspire against a democratic neighbor?

It is our hope that President Chavez's recent statements indicate that he has chosen the former and not the latter, that he is calling on the FARC to lay down its weapons, calling on the FARC to release hostages, and calling on the FARC to look for a way to re-integrate itself peacefully into Colombian society.

But we and those in the international community that are trying to help a democratic state in Colombia fight a terrorist group like the FARC now have, I think, an important advantage, in the sense that we know, for the most part, what the relationship is between Venezuela and the FARC. We know the individuals that have managed it.

We believe that, while these individuals have used state institutions, that the relationship with the FARC probably has not been the policy of the state institutions, but the institutions themselves have been used or abused for the purpose of this relationship, and we are looking very closely at this handful of people to determine what steps we can take against them. Some have already been taken, and some have already been published in the press, especially in regard to the head of Venezuela's military intelligence, General Carvajal.

More broadly speaking, as we assess and determine what our next steps are, we need to be sure that those who have been building a relationship with the FARC are exposed for what they have done and pay a political price for what they have done, and, in the process, that we do not actually enhance President Chavez or those around him who have been working these issues.

So the decisions that we take will be based, obviously, on the criteria of the law and on our understanding of what individuals have been doing and have been up to, but will also be very focused on what the consequences will be more broadly.

Mr. ENGEL. Since you mentioned the FARC, let me just ask you this, and I know Mr. Burton has a follow-up question as well.

We have talked extensively about the laptop computer files from Colombia's March raid on a FARC group camp in Ecuador.

I mentioned, in my opening statement, that President Chavez's remark on June 8th called for the FARC to release all hostages unconditionally and to cease military operations. So we have sort of seen both sides.

You recently noted the importance of Chavez's words and expressed hope that they would be, and I am quoting you, "backed up by actions designed to prevent the use of Venezuela's frontier with Colombia for the movement of weapons."

So could you just tell us—should we take President Chavez at his word on the FARC? Have you seen a change in his interaction with the FARC over the past month? Do you see any movement by Venezuela to stop the use of its territory by the FARC or to stop gun running from Venezuela to the FARC? What role, if any, do you see Venezuela playing in the future in helping resolve Colombia's conflict or negotiating the release of any additional FARC hostages?

Finally, we mentioned that there was a meeting last Friday between President Chavez and President Uribe. I am wondering if you could tell us anything about the results of that meeting.

Mr. SHANNON. Well, to begin with the meeting, from our point of view, it was an important step forward in the relationship between Colombia and Venezuela.

The willingness of Venezuela to begin to reconstruct a variety of frontier and border commissions that helped Venezuela and Colombia over the years regulate security issues along the frontier, regulate commerce, and regulate the movement of people is welcomed by the United States because, again, this is a very important frontier for Colombia, and it is a very important frontier for Venezuela.

There are a lot of Colombian businessmen and women who purchase foodstuffs and industrial goods that are shipped into Western Venezuela to meet shortages in Venezuela's own production capacity.

So the economic relationship and the ability to move people and goods along the frontier is important for the well-being of the bilateral relationship between the two countries and the economies of both countries, so this is an important step forward, and I think this is a useful outcome of the meeting between President Uribe and President Chavez.

I think this meeting is also, to a certain extent, a recognition that, in the larger struggle between the Colombian democratic state and the FARC, that the Colombian democratic state is ascendant, that it is at a point where the FARC has suffered such serious losses that there is a real question about its ability to continue as a coherent or functioning drug trafficking and terrorist organization, which does not mean that it is not dangerous and which does not mean that it does not still pose a threat to the democratic state.

But I think there is a broad recognition that its ability to present itself as a political alternative to the current government or its ability to present itself as an institution that deserves a space at Colombia's political table has declined dramatically.

I would think that this has caused President Chavez and his government to reassess the worth or the value of their long-term relationship with the FARC. But, again, this is something we are going to have to watch in order to understand better, and, again, we have no illusions about what we are dealing with, but what has been important, and I think that the advantage we now have is, with a clear understanding of what the relationship has been like, we are going to be able to track it more closely.

I cannot give you specific results at this point in time because this has all happened so quickly in regard to the death of Raul Reyes, the death of Ivan Rios, the death of Marulanda, the fragmentation and fracture of the FARC hierarchy and secretariat and

then, obviously, the rescue of the hostages. So we are still going to need some time in order to better assess and understand its impact on the FARC and its impact on the relationship between the FARC and President Chavez.

But I would like to close with just one final point, and that is that it took the Venezuelan Government and those around President Chavez and the FARC several years to really figure out how to communicate with each other and how to understand each other and find some way to build a relationship that we have seen over time, and while it is a worrisome relationship and, in many instances, a relationship which runs counter to international law, it is important to understand that throughout the period of time that the relationship has existed, the FARC has been in decline. In other words, the relationship has not helped the FARC establish itself militarily or politically. In fact, it has probably harmed it.

Mr. ENGEL. Thank you. I told Mr. Burton I would let him do a follow-up question on this.

Mr. BURTON. Real quickly, regarding the potential or possibility of Venezuela becoming declared a terrorist state, as a practical matter, both Venezuela and the United States would suffer if that should happen.

We get almost 1 million barrels of oil a day. I know it is heavy crude, like you are talking about, and Venezuela would have a terrible time disposing of all of that oil, which would hurt their economy, should there be that kind of a division, and the United States, because we are not in a position of being energy independent, would suffer because we would probably see price spikes in things like gasoline and other energy products.

So if we continue to see an escalation, and you just indicated we will not, but if you saw an escalation of activity between Hezbollah, and, Mr. Mack, I think, may have a follow-up—I am going to yield to him in just a second—between Hezbollah and/or Hamas or Tehran and/or the FARC, how would we deal with that? That may be a very Gordian question for you to try to answer, but because of this interdependency, it makes it look like it is something that just would not fly.

Mr. SHANNON. Obviously, our energy relationship and our commercial relationship with Venezuela is important, but we had a similar relationship with Iran when we declared Iran to be a state sponsor of terrorism. So there have been precedents in the past.

But what kind of determination we make is based, under law and under the criteria, on more than just a political relationship that is created or established. It is really linked to more direct content and ties to terrorist activity, and so we would evaluate this very carefully.

Mr. BURTON. So, in the event that we really considered them a terrorist state, we would find a way around the economic interdependence that exists, or we would try to do that.

Mr. SHANNON. Especially if we thought that this was an important tool to break a relationship and to highlight the emergence of relationships that the rest of the region needed to understand and be aware of.

Mr. BURTON. I yield to Mr. Mack for a question.

Mr. ENGEL. Mr. Mack, a quick question, and then I am going to call Mr. Delahunt.

Mr. MACK. Okay. Thank you. First, I would like to make the point that I do not think the point is that the relationship with Venezuela and Chavez and the FARC—you mentioned that they are in a decline throughout that relationship. I think the point is the willingness of Chavez to support terrorist organizations that is really more to the point of the discussion about whether or not Venezuela is put on this list.

They worked a long time building that and learning how to communicate with the FARC, and I believe they are doing the same thing with Iran and Ahmadinejad.

The next time we meet, it might not be the actions that Chavez is taking with the FARC; it might be the actions that Chavez has taken in another set of laptop computers that we find that has the information with Ahmadinejad in Iran.

So I would urge you to continue the discussions, and my understanding is that the next report will come out next year, but the data collected will be through the rest of this year to determine whether or not they would be put on the list.

Mr. ENGEL. Thank you. Mr. Delahunt?

Mr. DELAHUNT. Thank you, Mr. Chairman.

For just a moment, Mr. Secretary, on the laptop computer, there was a number of statements that were made on the laptop. Some were suggestive of a relationship; some were not. Some were statements even about American officials that were proven to be inaccurate, at least as it related to American officials. Is that an accurate statement?

Mr. SHANNON. I am sorry. Inaccurate in?

Mr. DELAHUNT. Inaccurate in terms of the validity of the statement itself. I am not talking about the laptop. I am not talking about tampering with the laptop. I am talking about the musings, if you will, of Raul Reyes, some of which were clearly without substance in terms of accuracy. Maybe this is what the individual believed, but it did not, in any way, provide evidence regarding anything unless that is corroborated in a different way.

Mr. SHANNON. Many of the documents on the laptops are e-mails and memoranda in which the FARC is communicating with itself and in which different members of the secretariat are talking back and forth.

Mr. DELAHUNT. Right. They could be talking about Tom Shannon, for example.

Mr. SHANNON. Exactly, and they might have been.

Mr. DELAHUNT. And they might have, and it could or could not be accurate.

Mr. SHANNON. Right. So, obviously, this—

Mr. DELAHUNT. I do not want to spend any more time on it.

Mr. SHANNON. In some instances, it reflects impressions. But it is important to note that the laptops are not the only information available to us.

Mr. DELAHUNT. Right. What I want to get to is, in a report by CRS, there is a statement that, as a result of the referendum and domestic issues, that President Chavez's popularity has declined, or

did decline, to about 34 percent, and it is back up around 50 percent. Is that accurate, according to your information?

Mr. SHANNON. I have not seen the latest polling data, but his popularity fluctuates, depending on—

Mr. DELAHUNT. I guess my question is, have you noted the approval rating of the United States Congress?

Mr. SHANNON. I will leave that to you, sir.

Mr. DELAHUNT. Have you noted the approval rating of the American people of the administration or the President?

Mr. SHANNON. Yes.

Mr. DELAHUNT. I will just let that sit out there, too. I guess what I am saying is communication is important and a full understanding of the various issues that are in play domestically. I do not consider the Venezuelan people to be dumb or stupid. They are not. They are a remarkable people, all of them, all 100 percent of them, the ones that I have met, and I think we have to respect the dignity and the sovereignty of the Venezuelan people. I know that you do that, and I know that my colleagues on the dais do as well.

So when they support policies that involve renegotiation of oil contracts by the Chavez government, I presume that that has the support of a majority of the Venezuelan people, and maybe some do not like to have their contracts renegotiated, or they do not like to have, you know, the oil industry further nationalized or the cement industry further nationalized, and maybe we would approach it differently.

But my understanding is that those areas where there has been nationalization, there have been settlements, and compensation has been made. I presume there was some litigation, but, in many cases, it has been effected in a way that we would do it here within our legal system. Am I misstating anything?

Mr. SHANNON. For the most part, there are several cases in which—

Mr. DELAHUNT. They are in court?

Mr. SHANNON [continuing]. Remuneration was not forthcoming and one case that was determined to be expropriation.

Mr. DELAHUNT. Okay. I think, then, that those should be pursued by the government. From communications that I have had with American companies that have found themselves in that appear to be satisfied.

I am going to point I am saying is, because of the profile of Hugo Chavez, it creates a certain reaction, and one has to remember, for example, that there is a national oil company in Norway. PEMEX, in Mexico, is a national oil company. I think there are some here in this Congress that would nationalize a few of our American oil companies, given the price of gas. That would not be me. I want to be clear with you, Mr. Chairman, and my friend from Florida.

I guess my point is that the conditions in Venezuela are such that it is important for us to understand what those conditions are. Individuals, like President Uribe of Colombia and President Chavez of Venezuela, they just do not happen. They are popularly elected, and the priorities that they support, or that they put forward, are promulgated and eventually are tested by the polls. Hugo Chavez has been tested by the polls.

I just have one final question. You indicated that, in Latin America, he has strained his relationships. Could you identify those countries with which he has strained his relationships?

Mr. SHANNON. It would take me a while. Let me describe it this way. When Hugo Chavez kind of burst on the scene in the region in a significant way, which is really after he returns to power in 2002, and pursues a very—

Mr. DELAHUNT. Mr. Secretary, I do not think that is the question I asked. If you would prefer not to answer it, or prefer to answer it in private, because I think that—and I have great respect for President Uribe in Colombia—and I think he has taken a formidable task and has addressed it as well as he can.

But I do not think necessarily that we understand totally, at least here in this Congress, the various nuances in the relationships that exist among Latin American countries. I have a vivid memory of President Lula praising President Chavez.

Now, I am sure that, like many others here on this dais, we say things sometimes that maybe we have some reservations about that might not be forthcoming fully, but I think we have got to understand that every leader in every nation-state, at different times, is viewed in a different lens by other nations.

In my opening remarks, I tried to emphasize that I think, and hope, that this might be a moment when we can begin to repair the relationship, and I think we really should take advantage of that and demonstrate that we are willing to open up, to be forthcoming, and to see if we can move forward. I think that is important, not just in terms of the bilateral relationship but for the hemisphere.

I know you support that kind of approach, and I think it is important to follow through.

We are going to have a new administration. I mean, it is clear to me that it was the chairman that called the handling of the incidents in April 2002 a mistake by the administration. I think it was a debacle. I think that soured the relationship and soured it to the point where it has continued to decline and that there is such a level of mistrust, because of the White House's statements surrounding the coup, that it is important to get past that now, to move forward, and to begin, as best we can, to diplomatically work a modus vivendi that benefits all of us.

I will yield back. I will not ask you that question. I will rescind that question.

Mr. ENGEL. Mr. Secretary, I think we have no further questions, so if there is anything you want to comment on, anything that Mr. Delahunt or anyone else said, and wrap it up, we will be happy to hear your remarks.

Mr. SHANNON. Again, I appreciate the comments by Mr. Delahunt and appreciate his willingness to work hard to maintain an open degree of communication between the United States Congress and Venezuela.

As I noted earlier, this kind of communication is important, and as I noted also, we welcome the recent statements by President Chavez indicating a willingness to explore improved cooperation with us on the counterdrug side, and we are moving right now to

underscore our interest in seeing whether or not this can be made real.

It is an important moment, and it will be, I think, an important moment for whoever follows this administration because the degree to which President Chavez can build some level of cooperation and trust with this administration, it will certainly carry over into whoever comes next, and we have said that to the Venezuelans on a variety of occasions.

Whatever the level of mistrust, whatever the level of suspicion or accusation, I think we have made clear, in a variety of moments and in a variety of venues, that there are areas where the interests of our two countries are so overwhelming that they should allow us to sit down and talk. This has not happened yet, and it has largely not happened because Venezuela has chosen not to make it happen.

So we will take the most recent offer at its face value and see what we can do.

Mr. ENGEL. Thank you, Mr. Secretary. We will let that be the last word of the first panel, and I want to, again, thank you for your testimony. As usual, we appreciate it very much, and, as was mentioned by myself and many other people on this subcommittee, we all appreciate the good work that you do for our country and thank you very much.

Mr. BURTON. Mr. Chairman, as the secretary leaves, I wish, for the younger people in the audience, he would explain what kryptonite is.

Mr. ENGEL. So thank you very, very much, and the first panel is now concluded. We have two votes coming very soon, so we are going to try to get the second panel in order and maybe have a few opening statements before we go to vote.

Thank you, Mr. Secretary.

Mr. ENGEL. Let me call upon the second panel. We are pleased to have a distinguished group of academics join us, and may I ask them to come and sit, Dr. Myers, Dr. McCoy, Dr. Bailey, Dr. Corrales?

[Pause.]

Mr. ENGEL. The subcommittee will come to order. We are going to see if we can get in a number of opening statements prior to the vote, and once the vote is called, we have about 10 or 15 minutes where we can still continue.

We are pleased to have a distinguished group of academics join us on the second panel.

Javier Corrales is an associate professor of political science at Amherst College, David Myers is an associate professor of political science at Pennsylvania State University, Jennifer McCoy is a professor of political science at Georgia State University and director of the Americas program at the Carter Center; and, finally, Norman Bailey is adjunct professor of statecraft at the Institute of World Politics and president of the Institute for Global Economic Growth.

Welcome to all of you, and let me first say, if you can keep your opening statement, please, to 5 minutes, I would be happy. We are happy to submit your testimony into the official record, and if you

could just summarize your testimony in 5 minutes or less, we would appreciate it very much, and we will start with Dr. Myers.

**STATEMENT OF DAVID MYERS, PH.D., ASSOCIATE PROFESSOR,  
DEPARTMENT OF POLITICAL SCIENCE, PENNSYLVANIA  
STATE UNIVERSITY**

Mr. MYERS. Mr. Chairman, a pleasure to be here. Obviously, I have the testimony which I read last night, and it took 28 minutes to read, so this is going to be very much a summation of it.

So what I am going to try to do is summarize some of the points perhaps that people have not made so we do not repeat exactly the same thing.

One of the important things to remember, I think, is that Hugo Chavez came to power, elected by the Venezuelan people, after they rejected a democratic system that had been in power for more than 40 years. That democratic system was modeled somewhat on our system here in the United States. We had very close relations with it. It had lost credibility, and part of Chavez's antagonism toward the United States relates to the fact that he felt that we had kept in power this democratic system, which served our interests rather than his interests, and I think that is important.

One of the other things to remember is that Chavez continues to have the support of a large number of Venezuelans. I just was talking with some friends that work with me in public opinion polling, and the most recent polls show that Chavez commands about 40 percent of the support. About 40 percent of the people do not like him, and 20 percent are in between. So that is after being in power for 9 years.

Now, a couple of things here. I want to talk, really quickly, about the political situation, the economic situation, maybe Latin American international politics, and sort of conclude with a little bit about U.S. relationships with Chavez over the years and pluses and minuses of that.

I think, when we go to politics, what we see is that there are two really important dimensions here. One is freedom of speech, and the other is freedom to organize.

Chavez has not been all that bad on freedom of speech until you really begin to have an impact affecting his popularity, and I think what you see is that this happened with RTC, and when he saw that it was having an impact, then he moved rather precipitously against RTC.

On the other hand, what he did was he took some of the channels, and he gave it to community stations. These community stations were able to talk with each other to try to figure out where Venezuela should go, but within the overall Chavez system. He will let you have a lot of freedom of speech in Venezuela, except when it really appears to be challenging his ability to remain in power.

I think the other dimension that you can look at here very clearly is the dimension of the ability to organize, and what he has done here is he has systematically undercut the ability to organize of all of the interest groups that had developed under the previous democratic system over the previous 40 years. For example, the labor unions; he began to go after them when he was unable to control them, and they actually resisted quite well until the strikes of

2002, after the coup, and 2003, and, after that, of course, he discharged, like, 18,000 people from the PdVSA, which undercut the petroleum union, which was the heart of the Venezuelan unions.

The parties, you will want to remember, the AD and COPEI were the two best-organized parties perhaps in all of Latin America, and the system was set up so they would have a type of public funding that came out of the electoral council. When Chavez came to power, they changed the electoral system, and the end result is that the parties, and you can argue they did abuse some of it previously, but they did not have access to public funding.

On the contrast, some of the public funding, through sort of back-door ways, went into the Chavez movements, and, in a sense, even though I would argue that the elections were open and fair, having been an observer in the last, actually, three Presidential elections, the day in and day out was fair, but the playing field was not level when they started because of the way the money had gone into the political parties, certain parties had more money, more funds, more access to TV, and so forth.

In terms of international relations, I think one of the things that perhaps has not been talked about too much is the Brazilian tie. Chavez would really like to work with Brazil and Mercosur because Brazil sees Mercosur as an alternative to United States influence through free trade to the Americas. Chavez is all in favor of that. The problem is that when Chavez and the Brazilians get together, the Brazilians tend to have the dominant hand, and the end result of that is not exactly what Chavez wants.

So I think that that is a key relationship to determine the balance of power in the future on the South American continent, and it is one that we need to look at more.

In Iran, the only thing I would emphasize and talk about that we have not is the nuclear dimension. Chavez has long talked about the importance of each country being able to develop its own nuclear power, supported Iran in its nuclear confrontation with the United States, and has, indeed, looked forward to getting technical assistance, and there are some agreements signed. Once again, he argues that this nuclear relationship should be a peaceful one, the same way the Iranians would argue.

Mr. ENGEL. Let me ask you to summarize because your time is done.

Mr. MYERS. Okay. Let me summarize just in terms of the future. The relations started out very bad. We refused to let Chavez into the country when he was running for President. After that, when he met with President Bush in Quebec, he felt that he had been slighted. I talked with him when he came back from that meeting, and he said, "Those gringos will never do that to me again." Then, of course, we had what happened in the coup.

So I think that results in an antagonism that has been almost impossible to overcome, as long as we have had the people that he has had the antagonism with. I do think that there is a possibility, with a new administration, to open a new page with him, but it will have to be done extremely cautiously.

[The prepared statement of Mr. Myers follows:]

PREPARED STATEMENT OF DAVID MYERS, PH.D., ASSOCIATE PROFESSOR, DEPARTMENT OF POLITICAL SCIENCE, PENNSYLVANIA STATE UNIVERSITY

I would like to begin my testimony by pointing out that President Hugo Chávez came to power on a tide of rejection that overwhelmed the liberal democratic regime, known as Punto Fijo. Venezuela was governed under the rules of this regime (known as Punto Fijo) between 1958 and 1998. Its leaders were noted for establishing Venezuela's first successful democracy and for cooperation with the United States. Two political parties, Democratic Action (Acción Democrática—AD) and the Social Christians (Partido Social-Cristiano-COPEI), dominated the Punto Fijo years. In December 1998 Hugo Chavez mounted a presidential election campaign in which he attacked the Punto Fijo regime for its corruption, economic ineptitude and failure to look out for the interest of most Venezuelans. He received almost 60% of the popular vote. Subsequently, in the presidential elections of 2000 and 2006 President Chávez retained this level of support. As of June, 2008, after more than nine years in power, President Chavez's, approval ratings hovered around 50% and his Chavista movement was more popular than all of the opposition political parties combined. These facts confirm ongoing support among most Venezuelans for Hugo Chávez as a leader and for his government.

THE CURRENT POLITICAL SITUATION INSIDE VENEZUELA:

*Freedom of speech* is a high priority for democrats. President Hugo Chávez of Venezuela has been the subject of many controversies revolving about freedom of speech. His critics accuse him of laying the groundwork for dictatorship, despite the democratic credentials of his government. Since President Chávez's inauguration in February 1999 opponents have warned that authoritarianism was just around the corner. In early 2007 the Chavez government refused to renew the broadcast license of a major television channel that had criticized the President intensely. Opponents proclaimed that authoritarianism had arrived. Their free speech concerns were echoed by Human Rights Watch, Reporters Without Borders, and the Committee to Protect Journalists.

President Chávez claims that the decision not to renew the broadcast license of the channel, Rádio Caracas Televisión (RCTV) has nothing to do with free speech or human rights. He points out that the channel has openly opposed the government, including by supporting the military coup that briefly ousted Chávez in 2002. In addition, during the petroleum strike of 2002–2003 the station repeatedly called upon its viewers to come out into the street and help topple the government. As part of its continuing political campaign against the government, the station has also used false allegations, sometimes with gruesome and violent imagery, to convince its viewers that the government was responsible for such crimes as murders where there was no evidence of government involvement.

Based on legislation passed in 1987, the licenses given to RCTV and other stations to use the public airwaves expired on May 27, 2007. President Chávez declined to renew RCTV's license, citing its involvement in the coup. The right to use the airwaves previously allocated to RCTV was transferred to communal channels whose mission was to increase popular participation in the President's "Bolivarian Revolution." President Chávez seems to have made this decision without any administrative or judicial hearing. While the law does not require such hearings, the arbitrary manner in which the President acted led to protests. Opposition was especially intense among intellectuals and students. In the wake of these protests President Chavez allowed the station to continue sending its signal out over cable, satellite and the internet, although more than 70% of the population lacked the capabilities to receive RCTV through these mediums.

The case of RCTV illustrates the general state of freedom of speech in Chavez's Venezuela. Powerful media institutions which criticize the government may be silenced in an arbitrary manner. President Chávez, however, is not inclined to silence the opposition completely. Public debate among groups supportive of the government will be encouraged as long as that debate is perceived by the national government as empowering supporters of the Bolivarian Revolution.

*Freedom of to organize* is a second dimension of democratic life that has come under scrutiny since Hugo Chavez came to power. The critical institutions here are interest groups, political parties and neighborhood organizations. Organized interest groups such as labor unions, peasant leagues and professional associations were tied to the ruling political parties during the Punto Fijo regime. Soon after coming to power President Chavez attempted to take control of these organized. By and large these efforts were unsuccessful and for a brief period they were a countervailing force to President Chavez. Organized labor lost most of its power and influence after the president of the Venezuelan Confederation of Labor (Confederación de

Trabajadores Venezolanos—CTV), Carlos Ortega , organized strikes that paralyzed the country in December 2002/January 2003, but failed to oust President Chavez. The government subsequently attempted to organize its own “Bolivarian” labor unions, but they attracted few workers. After the failed strikes some leaders of the opposition interest groups went into exile, and those that remain in the country were marginalized.

Political parties, often described as the strongest and best organized in Latin America, ruled Venezuelan between 1958 and 1998. In the final decade of these years the two dominant political parties, AD and COPEI, lost support. President Chavez crippled them financially after coming to office and identification with them currently is below 3%. Several new opposition political parties have emerged since President Chávez won the presidential election of 1998. The most important are Justice First (Primero Justicia) and A New Time (Un Tiempo Nuevo). A regional grouping, Project Venezuela (Proyecto Venezuela ) has significant strength in the industrial state of Carabobo. As a unified force, working with the remnants of AD and COPEI, these opposition political parties might be able to capture half of the thirteen governorships and a number of important mayoralties in the state and regional elections scheduled for November 23, 2008. If the opposition political parties choose to compete individually they will have difficulty in winning half of that number. As of the present (July, 2008), efforts to create unified opposition electoral slates have been unsuccessful in most states. There is a good chance, however, that as the date for the November 23 elections draw near opposition party leaders will withdraw their weaker candidates in a number of contests and coalesce behind the strongest.

President Chavez and his supporters ran in the 1998 presidential election as opponents of political parties. This is understandable given the disrepute into which AD and COPEI had fallen. Antipathy toward the traditional political parties was so deep that the Chavistas were able to run against political parties in the subsequent national, state and local elections. President Chavez's political party, the Fifth Republic Movement (Movimiento Quinto República) was hardly a party at all. It depended on the President's appeal, and after he gained power, on resources provided by the government. Following his reelection in December 2006, President Chavez initiated an effort to create Twenty-First Century Socialism in Venezuela. An important facet of this effort involved creating a political party that would recruit loyal revolutionaries, control national, regional and local political institutions, and link neighborhoods to the national government.

The political party that President Chavez created, the United Socialist Party of Venezuela (Partido Socialista Unido de Venezuela—PSUV) will present its first candidates in the state and local elections of November 23, 2008. President Chavez personally has taken a hand in selecting these candidates. The Venezuelan state has provided resources to organize the new political party and will surely finance its campaign. The playing field for these elections is hardly level, but the PSUV is not without its problems. Several minor parties that have supported President Chavez in the past, including the Communists, have resisted incorporation into the PSUV and will likely run candidates for a number of offices in November. Hard core support for President Chávez remains at roughly 40% of the electorate, a grouping only slightly larger than the one that opposes the government. More than 20% of the electorate prefers neither. The potential for the PSUV to lose a number of important races is real. However, the opposition's lack of unity suggests that supporters of President Chávez will win a large majority of mayoralties and governorships.

The Venezuelan government's blacklisting of 371 opposition leaders is a final reason to anticipate victory for the PSUV in most contests of the November 23 elections. The ban affects some of the opposition's most prominent leaders. Many had anticipated success given that President Chávez had suffered a setback at the ballot box (his first) in the referendum of December 2007 that would have ended presidential term limits. The government's blacklist was drawn up by its top anti-graft official Comptroller General Clodosbaldo Russian. None of those whose name appeared on the list has been formally charged with a crime, but Russian says the law bars people from seeking office while facing corruption probes. The National Electoral Tribunal, which is under the control of government supporters, has refused challenge the ruling by Russian.

#### THE UNIQUE CASE OF VENEZUELA'S JEWISH COMMUNITY

The position of Venezuela's Jewish community is a special human rights concern. The Community's population continues to decline as a result of severe political and economic instability in the country. This has led to some hostility being directed at Venezuelan Jews, of which there are probably no more than 15,000 remaining out of a total population of close to 26 million. More than half of the Jewish population

of Venezuela lives in Caracas. The other large community is in the oil center of Maracaibo. At its peak, in the late 1980's, Venezuela's Jewish community numbered 30,000.

Relations between the Jewish community and the government of President Chávez were strained from the start. Few businesspersons from the Community supported Chavez in the 1998 presidential election campaign and early in his government President Chávez cultivated a friendship with Norberto Ceresolei, an Argentine sociologist with anti-Semitic leanings. The situation worsened after the United States invasions of Afghanistan and Iraq, both of which President Chávez denounced. His opposition to the Bush Administration's policies led him to seek out special relationships with states hostile to the United States. Close ties with Iran developed, and these ties led to increasing criticism of Israel and her supporters in Venezuela. It was not long before President Chavez was echoing the Iranian line that Jews were likely to blame for the 9/11 bombings in the United States.

In November of 2004, the Venezuelan Investigative Police searched the Jewish Day School in Caracas, claiming to have reports of weapons cached on the school grounds. According to media reports, rumors of an Israeli connection to the assassination of a Venezuelan federal prosecutor prompted the search. (The federal judge who issued the search warrant was also leading the investigation into the prosecutor's death.) The police found nothing. However, their 3-hour search disrupted the school day and alarmed parents. Leaders of the Jewish community protested to President Chávez following the incident. The government's anti-Semitic orientation intensified following Israel's incursion into Lebanon in 2006. An outstanding feature of this discourse was the blending of old and new anti-Semitic stereotypes using religious themes (Judas, deicide, usurers, etc.), as well as modern ones (Jews as capitalists, Zionist racists, etc.). Anti-Semitic leaflets also appeared in the waiting room of the Interior and Justice Ministries. Nevertheless, President Chávez maintains that he has nothing against Jews as a group. His concern is with Zionist Jews who support Israeli imperialism.

#### THE CURRENT ECONOMIC SITUATION INSIDE VENEZUELA:

This year, Venezuela's government says, oil will contribute \$75 billion to state revenues, up from \$43.5 billion last year and only around \$7 billion when he came to power in 1999. Nevertheless, the economy slowed sharply in the first quarter of 2008. That came as a surprise to the planning ministry, which had forecast growth of 6.7%. To make matters worse, the government's inflation forecast of 12% for this year has proved even more wildly optimistic. This is bad news for the urban poor, President Chávez's main constituency. The price of food is rising faster than the overall index. The cost of feeding a family of five rose by 2.4% in May and stands some 60% higher than the minimum wage, even though this was increased in March. For the first time in the past three years, the living standards of ordinary Venezuelans are declining.

Venezuela's economy is becoming anarchic, which makes it difficult for the government to implement policies intended to limit inflation and ensure a fairer distribution of wealth. The state limits the price for some 400 goods—everything from the cost of milk to paying for parking to buying chicken. It has also stimulated demand, setting an interest rate of 14 percent for bank deposits. This means that savers would lose ground by keeping money in the bank since Venezuela's inflation rate is running at 26 percent (over the past 12 months) the highest in Latin America. The government also has set the value of the bolívar, the Venezuelan currency, at 2.15 per \$1, but the black-market rate is now about 3.2 bolívares. The gap adds to the economy's distortions.

Venezuela's economy, fueled by surging petroleum income, has grown at an annual rate of 8 to 10 percent over the past four years. This rate of growth is the envy of Latin America. However, the government has channeled much of its oil wealth into handouts and subsidies, and its socialist policies have provided little incentive to increase production. Overall production of goods in Venezuela is growing only 8 to 9 percent per year. Personal consumption is rising nearly 20 percent annually. To fill the supply gap imports are rising at a rate of 35 to 40 percent per year. Normally this condition would stimulate private investment, but not in this case. Expropriations, verbal attacks against the private sector and land invasions have frightened off investors. Consequently, Venezuela's economy is more dependent than ever on state income derived from the sale of petroleum.

#### VENEZUELAN POLICY TOWARD LATIN AMERICA

*Under President Chavez Venezuela has developed close relations with Cuba, Nicaragua and Bolivia. His goal is to use an alliance between these states to undermine*

United States influence in Latin America, advance support for socialism and establish himself as a major regional leader. Ties between Fidel Castro and Hugo Chavez date back to the early 1990's, when Chavez was planning the unsuccessful military coup against the government of Carlos Andres Perez. After his inauguration as president in February 1999 President Chavez expanded bilateral relations to include payment in Venezuelan oil for Cuban doctors and teachers, who provided assistance to the urban poor of Venezuela. Not only did Venezuelan oil provided much needed energy for Cuba, Fidel Castro used sold some of it on the international market and used income derived from those sales to grow the Cuban economy.

On October 15, 2007 Cuba and Venezuela once again strengthened regional integration by signing 14 new cooperative economic agreements. In his speech praising these agreements President Chávez reiterated his admiration for Cuba and referred to Fidel Castro as a father for the Venezuelan people. On June 10, 2008 Cuba and Venezuela signed an agreement to install an undersea optical fiber cable connecting the two countries with the aim of countering the U.S. embargo of Cuba. This project is also intended to demonstrate the benefits to be derived by working with the Bolivarian Alternative for America (ALBA) a regional integration initiative championed by Venezuela which includes Bolivia, Cuba, The Dominican Republic and Nicaragua. President Chavez portrays ALBA as an alternative to the US-sponsored Free Trade Area of the Americas.

*Brazilian power and influence is among the most important limitations on President Chavez's designs to lead in South America.* He has courted Brazilian president Luiz Inácio Lula da Silva and the Brazilian left while portraying the Brazilian right and its supporters as the same kind of oligarchs that he overcame when he marginalized the AD and COPEI political parties. This approach led to accusations that President Chavez was meddling in domestic Brazilian politics, and the Brazilian senate delayed approval of legislation that would have made Venezuela a full member of the Southern Common Market (Mercosur). Also, Brazil and Mercosur's other members (Argentina, Paraguay and Uruguay) expressed concerns over what they feared was President Chavez's intention to transform the Southern Common Market into a force that is actively hostile to the United States. President Chavez responded to this setback by ceasing to comment in public on domestic Brazilian politics and by negotiating arrangements that demonstrate Venezuela's utility as a partner for developing South America. Venezuela's leverage is considerable given that it is Brazil's third largest trading partner (after Argentina and the United States).

Venezuela is encouraging Brazil to join in creating a Latin American version of NATO. This initiative adds force President luiz Ignacio Lula da Silva's call for establishment of a regional integrated defense council, an initiative Brazil floated following Colombia's incursion on March 1 (2008) into Ecuador to wipe out a camp of Colombia's FARC insurgents. The Brazilians, however suspect that President Chavez would have difficulty in curbing his preference for personal diplomacy and unilateral initiatives in favor of working through a multilateral institution. They also view the Venezuelan president's support for Bolivia's nationalization of its gas fields, most of which were being developed by Brazilian companies, as a challenge to Brazilian interests in South America. In spite of these problems, there is a strong possibility that increased cooperation on issues of mutual concern will usher in a new cooperative era in Venezuela—Brazil relations, but one in which Brazil holds the upper hand.

#### VENEZUELAN RELATIONS WITH IRAN

Venezuela's special relationship with Iran is long-standing given that both countries were founding members of the Organization of petroleum Exporting Countries (OPEC). President Chavez's efforts to energize OPEC during his first term in office brought him into sustained contact with Iran's political elite. Following the United States invasion of Iraq, which President Chavez opposed, he broadened relations with Iran beyond issues related to the sale and pricing of petroleum. Issues of culture and information technology received special attention. Venezuela's regional television channel, Tele-Sur, has made extensive use of Iranian documentaries that present the slant of the ruling Mullahs on issues ranging from the United States "imperialism" to the corrupting role of Western consumerism. On July 6, 2008, Iranian Deputy Minister of Culture Guidance for press affairs, Reza Malekian, and Venezuelan Minister of information, Hector Soto, agreed to a Memorandum of Understanding that was intended to further cultural relations between the two countries.

No issue of Venezuelan—Iranian relations has caused more alarm than the specter of cooperation between the two countries in the nuclear arena. President Chavez

is a strong supporter of the right of all countries to develop peaceful nuclear technology. This makes the Venezuelan president very popular within Iran's ruling elite. On more than one occasion Venezuela's president has stated that he wants to initiate nuclear research and will ask for help from countries like Iran. He adds that Latin America must prepare for the eventuality of oil running out. The transfers of nuclear technology from Iran to Venezuela, however, appear to be minimal. On the other hand, in the past year Iran and Venezuela have signed 14 new Memoranda of Understanding, bringing the total number of such agreements inked by the two countries to 181. The most recent Memoranda of Understanding are in the fields of oil, petrochemicals, housing construction, banking and finance, heavy industries, mines and ecology, small and medium-sized enterprises, transportation and health.

#### VENEZUELA AND TERRORISM

President Chavez has denied repeatedly that his government sponsors terrorism. He describes his contacts with terrorist leaders and insurgents as attempts to convince them to look for less violent and democratic paths to challenge the governments they oppose, many of which he concedes are repressive and brutal. President Chavez also argues that humanitarian concerns play an important role in his dealings with insurgents, especially his recent efforts to gain the release of prisoners held by the FARC in Colombia. He was highly critical of the operation by the Colombian military that raided a FARC training facility on the Ecuadorian-Colombian border on March 1, 2008. This raid killed the FARC commander, disrupted training and captured numerous computer files. Colombian President Alvaro Uribe released transcripts of these files that supported long held suspicions that the Venezuelan government was providing financial support and sanctuary to the guerrillas. President Chavez claimed that the files were forgeries even though an extensive examination of the files by Interpol failed to turn up any evidence of tampering by the Colombian government.

When the dust occasioned by this operation settled President Chavez surprised by announcing that the time for attempting to impose socialism through insurgency had passed. He called upon insurgents to look for other strategies to achieve their aims. This change of position should not be interpreted as an abandonment of President Chavez's determination to impose socialism, undermine traditional values and reduce the influence of the United States. Rather, it appears as recognition that insurgency and terrorism, especially in Latin America, have become counterproductive, at least for the time being. This suggests that President Chavez and his allies will be experimenting with new strategies and tactics to further their agenda in Latin America and elsewhere.

#### EFFECTIVENESS OF UNITED STATES POLICY TOWARD THE CHAVEZ GOVERNMENT

Relations between Hugo Chavez Frias and the United States government were strained as early as 1998, when Chavez ran for the first time as a presidential candidate. He resented the refusal by the United States government to grant him the entry visa that would have allowed him to speak at several gatherings to which he was invited. Two years into his government President Chavez came away from the Quebec summit in April 2001 angered by President George W. Bush's refusal to consider his proposals to soften the impact of neoliberal reforms as a condition for participating in the Free Trade for the Americas initiative. President Chavez also believed the President Bush's insistence on liberal democracy as the only acceptable form of democracy was a smokescreen to allow corporations and traditional elites to use checks and balances in the political system to block efforts to make policy making more responsive to the poor. President Chavez, as suggested earlier, viewed the invasions of Afghanistan and Iran as exercises in imperial power, and thus unjustified and immoral. Finally President Chavez came to view the ambivalent attitude of the United States government toward the military coup that removed him briefly, on April 11, 2002, as proof that President Bush opposed his government and was willing to use force to destroy it. This is why President Chavez has stated that any improvement in Venezuelan—United States relations will have to await the assumption of power by a new administration, in January 2009.

Whether more skillful and flexible diplomacy by the United States government would have prevented deterioration in its relations with President Chavez is a question on which there is little agreement. Greater sensitivity to the Venezuelan president's concern at the Quebec summit might have defused the residual anger he felt at being denied an entry visa during the 1998 presidential campaign. It also might have prevented the intense personal dislike that President Chavez developed for President George W. Bush. On the other hand, given President Chavez's socialist

orientation, the clashes that developed quickly with Venezuelan oligarchs (most of whom had long-standing ties with multinational corporations) and his determination to reenergize OPEC, it is difficult to imagine that Venezuelan-United States would not have deteriorated precipitously once the Venezuelan president began to implement his announced priorities.

The barely concealed gloating by some Bush administration officials in the wake of President Chavez's removal from office by the military in April 2002 damaged the credibility of the United States government almost beyond repair. From that moment on President Chavez and his inner circle viewed the United States government as imperialistic and evil. The decision to invade Iraq by President Bush a year later only confirmed that assessment. After that there was little that even the most skillful diplomacy could do to build any meaningful level of trust between the governments of the United States and Venezuela. Benefiting from unprecedented petroleum income, and secure in their knowledge of the importance of Venezuelan petroleum for the United States economy, President Chavez concluded that he had little reason to accommodate to the United States.

Over the past year the Chavez government has experienced difficulties in retaining popular support. Its poorly implemented socialist schemes have led to food shortages, declines in medical care and physical infrastructure deterioration. The United States possesses the technical capability to assist the government of Venezuela in resolving these problems. President Chavez is more inclined than any time since the April 2002 coup to seek accommodations with the United States government and American business interests. This presents a good opportunity for the administration that takes office in January 2009 to reassess relations with Venezuela and advance in directions that will be of benefit to both countries.

Mr. ENGEL. We will let that be the last word for now. Obviously, there will be questions.

I am going to call on Dr. McCoy, and probably, after Dr. McCoy's testimony, Mr. Burton and I will have to leave for two votes, and then we will come back immediately after the votes and reconvene. Dr. McCoy?

**STATEMENT OF JENNIFER L. MCCOY, PH.D., PROFESSOR OF POLITICAL SCIENCE, GEORGIA STATE UNIVERSITY, DIRECTOR, AMERICAS PROGRAM, THE CARTER CENTER**

Ms. McCoy. Thank you very much for the invitation to be here. My written testimony does three things.

I analyze the background, goals, and challenges of the Chavez administration's Bolivarian Revolution and, particularly, focusing on democracy and governability, and I address two questions that you had raised in your invitation, in particular, the disqualification of candidates for the upcoming elections and the implications of the information in the FARC laptops, and, finally, I make some suggestions for United States policy toward Venezuela and Latin America.

So, obviously, I will summarize here and try and touch on some of the questions you have raised this morning.

I want to note, at the outset, building on what Professor Myers said, that we have got to look at Venezuela in the context of the change that the people demanded, and they actually demanded radical change when they first voted in Hugo Chavez in 1998. What we are seeing is, basically, a country still in a transitory state, trying to build a new political, social, and economic system.

The process has been very conflictual, and the society remains polarized. They have not yet settled on a new model and a new social contract that involves everybody, that has the consensus of everybody.

They are not the only ones in Latin America. They are the first ones in Latin America, in this recent period, to go through this. So

it is important to look at this context as we understand Latin America, as a whole, and Venezuela, in particular.

In terms of the questions about, are the recent openness or retreats from some of the radical positions that President Chavez had; is this permanent, or is this simply a facade?—some of the questions raised in the first panel this morning.

I would say that, certainly, his attempts to radicalize the revolution that were defeated in the constitutional referendum vote in December did produce a very clear retreat, at least temporary retreat, and I do think it is temporarily in the sense that he has not given up his goals of 21st century socialism. However, I have known President Chavez to be, in the 10 years that I have known him, to be a very pragmatic person and a person who has evolved his ideas. So I would not discard the possibility of his modification of the definition of “21st Century Socialism,” which has been evolving and has not been made clear.

So while some of the retreats probably are electorally oriented for the upcoming November elections and are also a pragmatic response to some of the pressures he is facing on the ground today, in terms of problems within Venezuela—food shortages, inflation, et cetera—and also the structural context of the region, I think that we should allow for the possibility of some modification of his goals in the future without abandoning the overall goals of 21st century socialism.

We do see, though, in 2008, more of a political openness and an expectation that the opposition could make some electoral gains, and if this happens, that certainly would create more pluralism, which, I think, would be healthy for Venezuela, and that raises the questions you had raised about the disqualification of candidates for this year, which I wanted to comment on because it is actually a complex question, and, in Venezuela, it involves legal questions, as well as the perceptions of political bias.

The problem is that there is a law that was approved in 2001 by a large majority of the Congress, including opposition members, that gave this authority to the controller general to actually disqualify individuals found to have conducted some kind of administrative irregularity, which really means corruption, to disqualify them from running for office or even holding an appointed position in the Civil Service.

The questionable thing is whether this authority, which does exist in the law, violates the Constitution by giving the authority of administrative sanctions to go beyond simply imposing fines to actually disbarring a person from running for office or holding a position. So it is really important for the Supreme Court to answer the questions of whether this law violates the Venezuelan Constitution, and what should be the definition of “administrative sanctions” that one individual official is able to carry out.

So, hopefully, the Supreme Court, which has several cases before it, will decide this question before August 5th, which is the opening of the period to register candidacies for the November election.

Regardless of this, I would say there is still the perception of political bias because those aspiring candidates who are currently on the disqualification list, the most well known of them are opposi-

tion candidates, and so there appears to be political bias in this situation.

I am out of time, so I will leave the rest of my testimony on the FARC laptops and relationships with the United States for the possibility of questions.

[The prepared statement of Ms. McCoy follows:]

PREPARED STATEMENT OF JENNIFER L. MCCOY, PH.D., PROFESSOR OF POLITICAL SCIENCE, GEORGIA STATE UNIVERSITY, DIRECTOR, AMERICAS PROGRAM, THE CARTER CENTER

Chairman Engels and Committee Members, thank you for the opportunity to address the committee on the current state of Venezuelan politics and relations with the United States. My written testimony will do three things:

- Analyze the background, goals and challenges of the Chávez administration's "Bolivarian Revolution, focusing on democracy and governability.
- Address two issues of current concern as requested by the committee: the disqualification of candidates for the upcoming subnational elections and the implications of the information in the FARC laptops.
- Suggest some changes for U.S. policy towards Venezuela and Latin America.

I. BACKGROUND, GOALS AND CHALLENGES OF THE CHÁVEZ ADMINISTRATION'S "BOLIVARIAN REVOLUTION"

Venezuela democracy and governance must be understood in the context of the demand for radical change expressed by the voters in the 1998 election of Hugo Chávez. A near tripling of poverty rates from the 1970s to the 1990s had produced a serious social dislocation, and a profound rejection of the traditional political elites that led to the collapse of what had been one of the strongest political party systems in the region. Venezuela today remains in a transitory state, as one political system was dismantled and another is still being created. The constitutional "refounding" promised by Hugo Chávez in his campaign initiated a process of sweeping elite displacement, major redistribution of economic and political resources, and experimentation with new forms of participatory democracy. Venezuela is the first of several Latin American countries seeking a fundamental change in the balance of social relations in the 21st century. This process has been very conflictive. Venezuela has not yet achieved a new social contract including all sectors of the society, and the society remains polarized.

The process referred to by its proponents as the Bolivarian Revolution actually retains many of the basic traits of the previous democratic period known as the "Punto Fijo" political system (1958–98): dependence on oil revenues; highly centralized decision-making structures, with a new set of privileged actors displacing the traditional elites; reliance on the distribution of oil rents; and failure to restore the regulative and administrative capacities of the state (though there is increased tax collection capability). The changes lie in the centralization of decision-making in one person (Chávez) rather than two hierarchical political parties; a new emphasis on class divisions rather than cross-class alliances; an emphasis on confrontation and elimination of opponents to achieve change rather than consensus-seeking to achieve stability; and the dismantling of traditional representative institutions and weakening of checks and balances in favor of new forms of participatory democracy and accountability.

In broad terms, the "Bolivarian Revolution" is an attempt to reformulate the political economy to be more inclusive of those who perceived themselves to be excluded in the latter half of the Punto Fijo period (which included urban poor, middle class civil society organizations, intellectuals, and junior ranks of the military). It is full of contradictions: nationalistic and integrationist, top-down and bottom-up change, centralized and participatory. It seeks to move beyond representative, liberal democracy to achieve a new form of participatory, protagonistic democracy which in its utopian form allows for empowered citizens to hold the state accountable without intermediary institutions. It follows a Bolivarian inspiration comprised of both a Latin American integrationist dream and a centralization of domestic power. Foreign policy is fundamental to the project, with its goal of counter-balancing U.S. global and regional hegemony with a more multipolar world. Like its domestic version, Venezuela's foreign policy is confrontational and conflictive.

Chávez' reelection with 63% of the vote in 2006 apparently encouraged him to propose even more radical change in a second constitutional project in 2007, which was

ultimately rejected by the voters. Institutionally, the 2007 (failed) constitutional reforms would have deepened the executive control of the political system, concentrating power to an extraordinary degree. Since then he has reached out to dissidents within his own movement; reshuffled his cabinet to attempt to address severe problems in government services, crime, and inflation; and restored relations with neighboring Colombia while calling on the FARC to end kidnapping and unilaterally release hostages. The retreat from “deepening the revolution” is most likely aimed at the November 2008 mayoral and gubernatorial elections, in which the government faces stiff competition if the opposition unifies. It does not mean that the government or the president has abandoned the goals of “21st Century Socialism.”

#### *State of Democracy*

*In formal terms, Venezuela is a constitutional democracy whose citizens have the right to change their government peacefully through regular elections based on universal suffrage. Democratic legitimacy in Venezuela is based on electoral legitimacy and popular participatory mechanisms. The concerns lie in an erosion of separation of powers and mechanisms of horizontal accountability (checks and balances), and the dominance of the governing party in representative institutions.*

A dozen elections and referenda have been conducted in the ten years of the Chávez administration. President Chávez has consistently won between 56% and 63% of the popular vote in every election in which he has participated since 1998.

The perceptions of social inclusion, political representation and personal empowerment and hope provided by Hugo Chávez to the majority of impoverished citizens are a powerful factor, often ignored in external evaluations of Venezuelan democracy. The Chávez administration has accepted elections as a mechanism for citizen participation and choice, and they will continue to provide the best opportunity to achieve pluralistic representation at local, regional and national levels.

#### *Electoral Processes.*

*After a period of politicized electoral processes, erosion of public confidence, and abstention by the opposition, Venezuela's electoral processes are regaining widespread confidence and include one of the most advanced electronic systems in the world. Continued focus on improving equitable campaign conditions (finance, control of use of state resources) can provide more options to voters while enhancing the legitimacy of the victorious candidates.*

The November 2008 elections for governor and mayor present an opportunity for additional political leaderships to develop, both within chavismo and outside of it, thus providing a route for a healthy dynamism and generational renewal within Venezuela's political class.

#### *Participatory mechanisms.*

*Direct democracy mechanisms and experimental community-based political organization provide important opportunities for citizen participation, but have mixed reviews to date.*

Venezuelans have voted in at least four significant referenda on constitutional reforms and presidential recall. Further, one of the hallmarks of the Bolivarian Revolution has been the experimentation with various forms of citizen organization and community-based political organization, from the early Bolivarian Circles to the Election Battle Units to local Water Committees and the more recent Community Councils (now an estimated 30,000). The effectiveness of these experiments in terms of bringing citizen empowerment, technical expertise, autonomy and sustainability, and their ability to hold the government accountable has been mixed to date.

#### *Political Party System.*

*The recomposition of the political party system is another challenge for Venezuela, after the collapse of the Punto Fijo party system in the 1990s. The ability of the small, new opposition parties to challenge the current hegemonic position of the governing party remains to be seen.*

Chávez' own party started as a clandestine movement within the military, then morphed into a political-electoral movement, then a political party within a coalition, and finally (in 2007–08) an attempted single official party (PSUV).

The opposition parties are now led by Primero Justicia (a relatively new young, technocratic party), Un Nuevo Tiempo (based in Zulia and led by Zulia's governor and 2006 presidential candidate Manuel Rosales), and MAS (one of the few remaining parties from the Punto Fijo years), while Podemos has left the governing coalition and occupies a centrist position. The two dominant parties of Punto Fijo—Acción Democrática and Copei—have virtually disappeared.

Party identification of voters with the opposition parties totals only 10%, and the government's party obtains about 20% identification, with the bulk of the population

claiming to be independents (Datanalisis, February 2008). The possibilities of re-creating a pluralist political system in Venezuela rest today on creating equitable campaign conditions and on the opposition's ability to do two things: i) convince its supporters to vote after years of alleging fraud and sowing distrust in the electoral system; and ii) craft a convincing message that the opposition provides a credible alternative that will work to achieve social inclusion and redistribution as the Bolivarian Revolution has promised.

#### *State of Rule of Law*

*Traditional mechanisms of horizontal accountability under liberal democracy—separation of powers and independent organs of control—are largely absent in Venezuela today.*

Due to electoral weakness of the opposition and the decision to boycott the 2005 National Assembly elections, the government coalition controls 100% of the legislative seats and the vast majority of the elected gubernatorial and mayoral posts. The National Assembly, in turn, appoints the other independent powers of the Supreme Court, the National Electoral Council, and the "Citizen's Power" made up of the Ombudsman, Attorney General and Comptroller General. All of these institutions are widely perceived today to be partisan in favor of the government. The ability of the democratic institutions to protect individual civil and human rights and provide equality before the law has thus been questioned.

#### *Civil Rights*

*The government generally respects most civil liberties, with some concerns of infringement on assembly, dissent and speech.*

One current concern is the attempt by the government to introduce legislation requiring NGO registration and regulating foreign funding of NGOs. A similar provision was included in the defeated constitutional reforms of 2007. The draft law is currently in the National Assembly.

Additionally, there is strong debate over the degree of freedom of speech and of the media. Venezuelan media have long been politicized, but with the polarization and conflict beginning in 2002, both private and public media, especially television, took on overt political roles. Two virtual realities of the country were presented in the media, and the opposition and the president engaged in public discourse and mutual accusations through the airwaves. After the 2004 recall referendum, several changes occurred: the government opened several new television stations and sponsored hundreds of community radio programs, changing the balance from overwhelmingly oppositionist media to a majority of official broadcast media; the National Assembly passed the Social Media Responsibility law to regulate violence and pornography during primetime television; and some media decided to make peace with the government and take on a less political role.

Vigorous criticism of the government and the president in the private media continues, and there is no formal censorship. Nonetheless, legal, economic and regulatory mechanisms create a climate of self-censorship. The state-owned media is characterized by strong pro-government politicization, while private media continue to be anti-government. Private media complain that they are denied equal and full access to government facilities and official events. Perhaps even more concerning, reforms to the criminal code in March 2005 increased the penalties for libel and defamation of public officials from a maximum of 30 months to 4 years in prison, directly counter to the direction of most of the rest of the region and the rulings of the Inter-American Court of Human Rights. Human Rights Watch reported that in 2007 at least eight reporters were charged with libel, defamation or related offenses (Human Rights Watch 2008). Nevertheless, international watchdog groups report that from 2002–2006, only 2 journalists were reported killed while working, and none were imprisoned or missing, a considerably better record than either of Venezuela's neighbors (Committee to Protect Journalist, Reporters Without Frontiers).

The government also places restrictions on the media through its administration of broadcasting licenses, which is not always transparent and may be motivated by political concerns. On May 28, 2007 the government declined to renew the broadcasting license of the country's oldest commercial network and most vocal critic, Radio Caracas Television (RCTV), for allegedly supporting the 2002 coup and violating broadcast norms. In addition, under the Law of Social Responsibility in Radio and Television, media outlets that fail to comply with regulations can receive large fines and risk suspension of their broadcasts.

#### *State of Governance*

*Weak state capacity, long deteriorating public services, political instability, and a continual climate of electoralism plague the government's ability to respond to the needs of the populace through effective governance.*

Venezuela's public services have been deteriorating since the 1970s, causing much of the dissatisfaction with the prior Punto Fijo regime and increasingly with the current regime. Both regimes have relied on external petroleum rents to finance a distributive policy and failed to develop effective regulatory policies. Venezuela's oil booms have historically fueled a paternalistic state and petrodiplomacy in foreign policy, and the external criticism of Chávez' programs as unsustainable populist give-aways have been directed to past governments as well.

The government gained political control over the petroleum industry in 2003 after the 2-month oil strike, and has since used the rise in oil prices to fund many newly-created social programs or *misiones*. The government has not only maintained the proportion of central government spending spent on pro-poor programs, but has added direct social spending by the petroleum industry. Thus, the percentage of pro-poor spending as a proportion of GDP appears to have increased under Chávez.

In addition to personal insecurity and unemployment, a new problem has emerged in 2007 and 2008 as a pressing problem in public opinion polls: food shortages. A combination of foreign exchange controls, price controls, rising consumer demand and lack of producer confidence have created serious food shortages in milk, oil, sugar, eggs and meat. With worldwide demand and food prices rising, Venezuela's traditional reliance on imported food is becoming a real vulnerability for the government. The rise in social spending has contributed to inflationary pressures making Venezuela the country with the second highest inflation in the world (expected to reach 25–30% in 2008).

Despite all these issues, satisfaction with democracy in Venezuela, perhaps surprisingly, has risen over the last five years and is now the second highest in Latin America with 59%, while the average for the region is 37% (Latinobarometer, The Economist 2007). Moreover, Venezuelan citizens' approval of their government is 66%, while the average for Latin America is 39%, and their confidence in the president is 60%, while the regional average is 43% (Venezuela Information Center 2007). These numbers reveal that Venezuelans, compared to the rest of the region, have a generally positive perception of their democratic system.

## II. TWO ISSUES OF CURRENT INTEREST

### *Venezuela's Relationship with the FARC*

The laptop computers captured by the government of Colombia in the March 1 raid into Ecuador have spawned a number of news stories about the alleged relationship between Venezuela, Ecuador and the FARC. Interpol was asked to investigate the laptops in order to ascertain whether they had been tampered with after the capture, but it did not investigate the content of the materials. The Government of Ecuador asked the OAS to investigate the content of the materials with reference to Ecuador. Interpol released their report in May, but the OAS has not yet released a report.

The Interpol report concluded three things about the captured laptops, CDs and memory sticks: that the materials were not handled according to international standards during the first two days of Colombian government possession; that they were handled properly during subsequent days, when copies were made and accessed rather than the original files directly accessed; and that no evidence of manipulation of the files after they were captured was found. The report also said that Interpol would make no evaluation of the veracity of the content of the files, the origin of the files, or interpretations of the files that various governments might make.

The report asserts that the Colombian government did not introduce the files, but it does not prove that Raul Reyes actually wrote the files, nor whether the statements in the files are true. The latter will require corroboration from other sources—that is, a full investigation that may not be physically or politically feasible.

There are issues of evidence and perception. The evidence thus far rests in the files of guerrilla leaders intimating offers of material and financial support from the government of Venezuela. Corroborating evidence would require viewing the responses of the Venezuelans, evidence of approval at the highest levels, and evidence of actual support. Some of the interpretations of the information leaked from the laptops has been found to be false (e.g. the alleged photo of an Ecuadorian minister turned out to be an Argentine), and others to be true. In addition, the timing of the emails suggests an increase in contacts during the fall of 2007 when President Chávez was authorized by President Uribe to negotiate a hostage exchange.

Nevertheless, expressions of solidarity with the FARC from Venezuelan officials and the early 2008 request by President Chávez for the international community to recognize the FARC as a belligerent force give the impression of at least ideolog-

ical solidarity. The recent change in policy expressed by President Chávez in his request to the FARC to unilaterally release the hostages is most likely a result of two things: a) an attempt to distance himself from the perception of close ties with the FARC; and b) the need to reestablish a more cooperative relationship with the government of Colombia for pragmatic reasons of trade, as evidenced in the July 11 meeting between Uribe and Chávez. Bilateral trade between the two countries is extremely important and Venezuela is dependent on Colombian food imports during the current food shortages.

Given the stakes of the United States declaring a country to be a state-sponsor of terrorism (affecting the vital oil trade with Venezuela), it is extremely important to base such a decision on firm evidence rather than perception.

#### *Disqualification of Candidates*

A current controversy involves the disqualification (*inhabilitación*) of 386 individuals from holding appointed public office, or running for elected office. *The controversy includes both legal questions and questions of political bias.*

The disqualification is an administrative sanction applied by the Controller General according to the Law of the Controller General, approved by the majority of the National Assembly, including many opposition representatives, in 2001 in order to curb corruption. Article 105 of that law gives the Controller General not only the right to apply a fine when an administrative irregularity (corruption) is documented, but also to remove the person from an appointed position and to prohibit the person from running for elected office. The Supreme Court previously ruled that this latter sanction would apply to an elected official only at the *end* of their current term, prohibiting them from running for reelection or another position for the specified time period. Some of the potential candidates for the municipal and state elections on November 23, 2008 are on the list.

There are currently at least 15 appeals in front of the Supreme Court of Justice requesting nullification of the finding of irregularity in specific cases, nullification of specific disqualifications, and nullification of the Article 105 of the law as unconstitutional. These appeals include both pro-government and opposition persons. It is hoped that the Supreme Court of Justice will rule on these issues before the August 5–12 period for candidates to register to compete in the November 23, 2008 elections. The National Electoral Council has thus far said that it will abide by the Controller General's list of disqualified candidates unless the Supreme Court rules otherwise.

*The problem is that the law appears to contradict the constitution.* The constitution specifies that the political right to run and be elected to office can be disqualified only by a judicial sentence, and that those sentenced for crimes while in public office or damaging public patrimony are not eligible to run (Articles 42 and 65). The constitution also gives the Controller General the authority to investigate and apply administrative sanctions for irregularities against the public patrimony (Article 289).

*The second issue has to do with the definition of “administrative sanction” and whether that should include only monetary fines, or can include the right to hold office.* The appeals before the Supreme Court argue that an administrative sanction impeding the right to hold office in the absence of a criminal sentence by the courts violates both the constitution and the Inter-American Convention on Human Rights.

Clearly, Venezuela needs a resolution of the legal questions from the Supreme Court. In addition to the legal questions, however, is the perception of political bias. Although the list of persons having received administrative sanctions includes many *chavistas*, perhaps a majority, and several have been removed from their public positions, it is not as evident that there are aspiring chavista candidates for elected office being disqualified. The persons most in the news or traveling to international circles are well-known opposition candidates. There is a perception, then, that these are popular candidates with viability to be elected who are being disqualified in order to prevent true competition with government-sponsored candidates. This perception has the potential to damage the legitimacy of the November 23 elections and those elected in them, particularly if the legal issues are not resolved by the Supreme Court before the candidate registration period.

### III. INTERNATIONAL ENGAGEMENT WITH VENEZUELA—2009 AND BEYOND

*In general, international leverage over a resource-rich state is strictly limited.*

Political conditionality of loans and aid is unavailable as a foreign policy or a democracy-promotion tool. Venezuela itself is becoming a donor to neighboring states, and even to the United States, with discounted oil payment terms to Caribbean and Central American countries, cheap heating oil in parts of the U.S., significant bond

purchases in Argentina, and barter trade through its Bolivarian Alternative for Latin America (ALBA).

On the other hand, mutual commercial dependence between Venezuela and the U.S., as well as with its neighbors, both encourages moderation and prevents serious threats between Venezuela and its neighbors. For example, 11–14% of the oil imported into the U.S. comes from Venezuela; Venezuela sells about 55% of its oil exports to the U.S. Colombia is Venezuela's other major trading partner, the importance of which was demonstrated during the brief break in diplomatic relations after Colombia's incursion into Ecuador in March 2008. The disruption of Venezuelan-Colombia trade (and especially imported food) contributed to Venezuela's rapid restoration of ties with Colombia, despite deep political disagreements.

*A change in U.S. attitude and policy toward Latin America can reduce the impact of Venezuela's anti-Americanism in the region, and may gain receptivity within Venezuela as well.*

Chávez' anti-Americanism resonates at home and abroad because of general antipathy toward U.S. unilateralism and perceived bullying. The new nationalism led by Hugo Chávez and joined by other Latin American countries seeks to assert greater independence of U.S.-dominated multilateral organizations such as the IMF and World Bank, and greater control and equity in their own natural resources (reflected in the renegotiation of contracts and rise in royalty and tax payments for extractive industries). A more consultative and responsive American foreign policy that addresses the agenda of Latin America would ameliorate the negative attitudes towards the U.S., opening the door over time to greater receptivity of U.S. ideas and assistance in Venezuela and elsewhere.

Several lessons from U.S. policy toward Latin America and Venezuela over the last eight years are evident:

- U.S. neglect of the region since 2001 left a political vacuum which Venezuela has been able to enter, primarily by providing alternative ideas on organizing the polity, economy and foreign relations.
- The U.S. and Venezuela have engaged in a Western Hemisphere "Cold War" in recent years, attempting to divide up countries among them. This is counterproductive. Latin governments do not want to be forced to choose between the U.S. and Venezuela, and U.S. attempts to strong-arm Latin governments into isolating Venezuela failed miserably, as shown in the drawn-out affair to elect a new Secretary General of the Organization of American States.
- The U.S. lost much of its moral authority in the realm of democracy promotion in Venezuela with its welcoming of the 2002 coup against Chávez, leading to a deepening suspicion of U.S. intent to carry out "regime change" in Venezuela and a radicalization of Venezuela policy toward the U.S. In Latin America more broadly, the U.S. unilateral policy on Iraq, in which "regime change" aims were promoted as democracy promotion, and the attempt to strong-arm Chile and Mexico in the UN Security Council to vote for the invasion was resented.
- The Bush Administration has learned to ignore rather than respond to much of Chávez' inflammatory rhetoric. This change in attitude will help to mitigate the U.S. role as a "foil" to Venezuela's anti-imperialist stance and should be continued.
- The U.S. refusal to extradite to Venezuelan citizen Luis Posadas Carriles on charges of terrorism (accused of masterminding the 1976 bombing of a Cuban plane) presents a U.S. double-standard on issues of terrorism.

#### *Lessons for the future—what can and should the U.S. do?*

A new U.S. administration offers the opportunity to begin anew with Venezuela in a more amicable and cooperative relationship. However, Washington should not expect major change given the fundamental foreign policy goals of the Chávez administration and the Bolivarian Revolution: to increase Venezuela's national autonomy, to increase the global South's autonomy vis-a-vis the North, and to lessen U.S. dominance in the region and the world. Venezuela will continue its attempts to diversify its oil export markets and to build coalitions to create a more multipolar world and a more integrated South.

A new U.S. foreign policy toward Venezuela should start with positive signals and focus on pragmatic concerns of interest to both countries—commercial relations, counter-narcotics, and security on the Venezuelan-Colombia border. The U.S. should make clear that it respects the sovereign right of the Venezuelan people to choose their leadership (as they have done consistently in voting for Hugo Chávez) and that the U.S. has no intent to engineer regime change in Venezuela. A more consistent

policy across the executive branch would help to reinforce this message, as in the past the Pentagon has continued negative descriptions of the Chávez administration even while the State Department tried to moderate its rhetoric.

In analyzing Venezuelan democracy, U.S. policymakers should recognize the social roots of the political change happening in Venezuela and Latin America, and acknowledge the pressing demand for jobs and personal safety, for poverty reduction and closing the huge income gap. We need to understand the hunger for recognition and inclusion by populations marginalized from economic and political power. Procedural democracy is not a priority for many in this situation. Having greater control and participation in the forces that determine their daily lives is.

Finally, the U.S. should recognize and have confidence in the capacity of Venezuelan citizens to provide their own constraints on their government when it crosses their threshold of acceptable change, as evidenced in the 2007 constitutional referendum vote. Given the limited direct influence that the U.S. can have in Venezuela in terms of its political-economy choices, a focus on providing the space and mechanisms for the Venezuelan people to determine their own direction should be a guiding principle for U.S. policy, working through multilateral forums and broader regional networks.

Mr. ENGEL. We will make sure that we get into some of those questions with you.

I am going to call a brief recess. Mr. Burton and I are going to go vote. There are two votes. I think we would be back in about 20 minutes, 25 minutes, at most, and we will resume with Dr. Corrales' statement. So we are adjourned.

[Whereupon, at 1 o'clock p.m., a recess was taken.]

Mr. ENGEL. Okay. The subcommittee will reconvene, and let me now call on Dr. Corrales for his opening statement.

**STATEMENT OF JAVIER CORRALES, PH.D., ASSOCIATE PROFESSOR, DEPARTMENT OF POLITICAL SCIENCE, AMHERST COLLEGE**

Mr. CORRALES. Thank you very much, Mr. Chairman and Mr. Ranking Member.

In reviewing Venezuela, it is tempting to focus on security concerns of many kinds, and those are legitimate concerns, but I want to talk about two points. The first is the possibility of instability in Venezuela, and second, Venezuela's oil diplomacy in the region. Those are two things that I think represent challenges for the United States.

On instability, I think this is a moment of trouble for Hugo Chávez. There is a second wave of discontent. The opposition is re-galvanized, and, as Professor McCoy said, chances are that the opposition is going to be able to make inroads in the forthcoming election.

However, this always raises the possibility of instability in Venezuela because the government gets very insecure during this electoral moment. When the government in Venezuela gets politically and, especially, electorally, insecure, then you begin to see violations of constitutional norms and even breaking the law.

All I would like to say about the issue of the blacklisting is that this is an example of the government acting very insecure as it comes to the elections and then the opposition reacting in kind. Because the opposition is stronger, and because the economy is weak, and the government is insecure, you can never rule out the possibility of violence in Venezuela.

We have not seen violence in Venezuela under Chávez, but, as I said, you cannot rule it out. At least, during this electoral period

and until we know exactly what happens after the result, the United States Government ought to be aware that this is a real possibility in the coming months in Venezuela, political instability in another petro-state.

The second point I want to talk about has to do with Venezuela's oil diplomacy. This, I think, is an unexplored challenge by the United States. As we all know, Venezuela is spending a lot of money on foreign aid. A lot of this is generous handouts to foreign governments peppered with a pro-poor distributionist discourse. I think this is a very interesting foreign policy weapon that Venezuela has discovered, and it is using it to a degree that I have never seen another Latin American country ever exercise before.

The idea, in many ways, what is happening here, in my opinion, is that a lot of this aid does make it to the poor abroad, but much of it is also generous, unconditional cash grants to political allies in the region. This, I am afraid, creates complications for the United States because it means that Chavez gains admirers, it means that the United States cannot really create a multilateral coalition to deal with Chavez because nobody wants to upset a government that seems to be doing something for the poor, not just at home but also abroad, and, in many ways, what it has done is I would say that Venezuela is developing a second export model. It is not just oil, but now Venezuela has become a champion in the export of corruption and political influence in the region.

The reason I want to bring this up before Congress is because I do not think that the United States Government has a response to this, has ever figured out exactly what to do when a nation that is seeking to balance U.S. interests decides to generate a policy of heavy spending abroad disguised as humanitarianism because it means that this is a regime that many nations and allies are unwilling to criticize openly simply because this is such a good public relations campaign.

As Mr. Shannon said, this strategy has not worked all that well all of the time. It has not been able to produce an anti-American coalition, but it has produced a shield against Chavez. This is worrisome, not just for anything that we might want to do with Venezuela but also because I think it is imitable. Other petro-states, at this point, could imitate Chavez's foreign policy of large foreign aid, unconditional, to smaller countries and, therefore, generate enormous goodwill abroad.

In many ways, what one could derive from the Venezuelan case is that it was imperfectly done by Chavez but that other nations with more money, gutsier regimes, can perfect the model, and this means that the influence of these regimes can propagate, or, at least, the ability of the United States to contain that influence diminishes.

Let me conclude by saying that a discussion about whether to declare Venezuela a sponsor of terrorism might be counterproductive because, in my opinion, it does nothing vis-à-vis what I think is the challenge, which is Venezuela's amazing public relations campaign and its export of corruption.

Notice, and I want to be very emphatic about this, that Colombia, the party that is more significantly affected by Venezuela's illicit activities, has decided to take a much more accommodating

policy, and I think it is a judicious position, the ones that Colombians have made, and I hope we can learn from what the Colombians have done with Venezuela. I think Colombians understand the influence that Chavez can have at home and abroad.

Essentially, my main point is that the United States should think more about this oil diplomacy, think of strategies, and, at some point, perhaps move the debate in that direction. Thank you very much.

[The prepared statement of Mr. Corrales follows:]

PREPARED STATEMENT OF JAVIER CORRALES, PH.D., ASSOCIATE PROFESSOR,  
DEPARTMENT OF POLITICAL SCIENCE, AMHERST COLLEGE

Mr. Chairman, Ranking Member Dan Burton, and Members of the Subcommittee: thank you for the opportunity to appear at this hearing entitled "Venezuela: Looking Ahead."

In reviewing Venezuela, it is tempting for this committee to focus attention on potential security threats such as whether Venezuela sponsors terrorism, provokes an arms race, or disrupts oil markets. These are legitimate worries. But I would like to discuss two different issues that are receiving less attention. The first is the possibility of rising instability within Venezuela. The second is Venezuela's petro-diplomacy, or what I would call, the use of "social power" as a tool to balance the United States. Both issues pose challenges for the United States.

I. THE FIRST CHALLENGE: POTENTIAL POLITICAL INSTABILITY IN VENEZUELA

The Chávez administration has entered a "second wave" of political discontent. The first wave took place between 2001 and 2004, when the number of government critics was greater than the number of supporters, and critics were protesting en masse. This first wave of discontent almost brought down the government. The second wave, which started in mid 2007, is less threatening to the government, but it may nonetheless produce political instability.

The current wave of discontent has two roots. First, discontent stems from the government's increasingly radical domestic policies launched since late 2006. President Hugo Chávez was reelected in December 2006 with 62.84% of the vote, his third major electoral victory since his first election in 1998. Chávez interpreted his 2006 reelection as a mandate to further radicalize policy, meaning, the expansion of the state's presence in key sectors of the economy and the Executive branch's control over institutions. He thus proceeded to enact a series of radical policies immediately following his reelection. The two most obvious examples were the May 2007 decision not to renew the operating license of Radio Caracas Televisión (RCTV) and the proposal to reform the constitution to allow for permanent re-election among many other forms of power concentration. Neither policy was popular. Each produced a backlash. The decision to suspend RCTV's license led to the most serious street protests since 2004. The 2007 referendum produced the first electoral defeat for the government, together with rumors of open military discontent.

The second source of discontent is the country's economic woes. Paradoxically for a country experiencing its most impressive oil windfall in history, the Venezuelan economy is experiencing serious strains, mostly the result of ill-advised policies. The six most important policy mistakes are:

- 1) Discouraging private sector investment, in both the oil and non-oil sectors, which has depressed the oil sector's productivity and employment-generation in the rest of the economy.
- 2) Encouraging labor conflicts between Chavista labor unions and private firms, which produces work stoppage and, often, subsequent nationalizations.
- 3) Fiscal profligacy, which is fueling one of the highest rates of inflation in the world.
- 4) Price controls, which in the context of high inflation, is producing consumer good scarcities.
- 5) Exhaustion of social missions, which in 2007, stopped offering visible results in terms of poverty alleviation, and are instead showing signs of increasing inefficacy and corruption.
- 6) Inattention to urban-based services, such as trash collection, crime, housing shortages, collapsing hospitals, decaying schools, and decrepit infrastructure.

As a result of these political and economic trends, the government's popularity has declined. A February 2008 public opinion poll revealed that the percentage of respondents who rated the Chávez administration as either "very bad" or "bad"—the disapproval rate—hovered around 41 percent, while approval ratings hovered at around 50 percent. This approval rating is 20 points lower than it was in 2006.

How serious is this second wave of discontent? It would be a mistake to overstate its effects. This second wave will not bring the government down. The disapproval rate is still below the levels registered during the peak of the first wave, of 67.5 percent.

Nevertheless, as it stands today, this second wave of discontent is sufficient to make the government insecure as it prepares for the elections scheduled for November 23. Approximately, 588 state positions will be contested (22 governors, 332 mayors, 1 metropolitan mayor, 219 state legislators and 13 metropolitan councilpersons). There is no question that the opposition is heading toward this election in its best political position since 2003. If it manages to produce unified candidacies, the opposition may win four, maybe more, new governorships. The government faces no risk of being unseated, but it will have to share institutional space with the opposition, something it has not done since 2004. It is therefore a high-stake election for the government.

The key issue for the United States will be how to respond to potential instability in this high-stake electoral period. One possible scenario might be the government breaking the law to minimize the opposition's prospects. Already, there are signs of irregularities. The most worrisome is the February 2008 decision by the Comptroller General Clodosbaldo Russián to disqualify ("inabilitar") 238 (originally 445) Venezuelan citizens from running for office. Two prominent opposition leaders are included in this list, Chacao mayor Leopoldo López, and former governor of the state of Miranda, Enrique Mendoza. The government argues that these individuals have violated the law and are therefore ineligible to hold public office (and thus, run for office). One could argue instead that the government is seeking to:

- a) prevent popular opposition figures (and the least loyal government civil servants) from running, thereby hurting the opposition's electoral chances; and
- b) provoke either a confrontation with the opposition or a distraction, so that opposition forces pay less attention to other irregularities that may occur between now and the elections.

Regardless of the objectives, the opposition claims that the "Russián list" violates the Constitution, which stipulates that disqualification can only be applied as a result of a judicial ruling (Article 42), finding the defendants guilty as charged ("condenados por delito," Article 65). No court ruling has taken place. It is worth remembering that for the 1998 election, candidate Hugo Chávez was not "disqualified" from running, despite his participation in a coup d'état.

In short, given this second wave of discontent, the government may be tempted to become an even more irregular enforcer of the law, which in turn could anger the opposition, increasing the chance of protests.

## II. A SECOND CHALLENGE: VENEZUELA'S "SOCIAL SPENDING" ABROAD

The issue of domestic instability in Venezuela, or elsewhere for that matter, while worrisome, is not a new topic for this committee. Historically, this committee has been well apprised of the difficulties U.S. officials confront in dealing with electoral turmoil throughout the world. There is not much I can add to that body of knowledge, other than alert you to that possibility for Venezuela.

However, there is a topic that I feel this committee, and the United States government in general, could spend a bit more time thinking about: Venezuela's oil diplomacy. The real challenge that Venezuela poses to the United States has less to do with aggressive actions that Venezuela could take against the United States, but rather, something else in Venezuela's arsenal: the use of generous handouts in its foreign policy, peppered with a pro-poor, distributionist discourse. Let's call this weapon: "social power." In the United States, we are used to discussing the requirements of "hard power" (military and economic might) even "soft power" (the spread of appealing ideas and values), but spend less time discussing the requirements of social power—either as something to project or to contain.

As a foreign policy tool, social power is a spectacularly effective way for world leaders to earn allies, even admirers abroad. Spending lavishly on social projects is almost impossible to criticize. At a minimum, it serves to deflect potential criticism and scrutiny from other nations. It essentially makes it impossible to launch any type of multilateral initiatives to contain this regime. Furthermore, social power is easily *imitable*. Other petro-states—with nastier, gutsier, and more competent lead-

ers—could replicate Venezuela's social-power foreign policy model, and improve on it. The result could be the meaner rogue states masquerading as international humanitarians. For all its power, the United States is simply unprepared to meet this potential new development in international politics.

#### *A. Social Power as a Foreign Policy Tool*

There is plenty of evidence that Chávez has gone on an international spending spree. According to the United Nations, Venezuela in 2006 invested US\$2.1 billion abroad, which represents more than 8 percent of its fixed capital. This is far more than Venezuela's average prior to Chávez (3 percent in the 1990–2000 period). Furthermore, this 8 percent is far greater than the average for most petro states, which hovers around 2 percent.<sup>1</sup> In fact, Venezuela's investments abroad are greater, in relative terms, than those of other bigger economies in Latin America. In terms of share of GDP, Venezuela's investments abroad are second in the region.

Venezuela's investments abroad have two salient characteristics. First, they are mostly carried out by the Venezuelan state (rather than private firms). Second, they include large sums for development projects. I estimate that Chávez has committed a total of US\$43 billion in investments abroad by 2007, of which, US\$17 billion (or 40.1 percent of total) could be classified as "social" investments. This includes oil subsidies to Cuba and the members of Petrocaribe; the acquisition of Argentine commercial paper, which exempts the Argentine government from having to pay the IMF; cash donations to Bolivia; medical equipment to Nicaragua; and heating oil subsidies to more than 1 million U.S. consumers. Some estimates suggest that Chávez has provided or promised as much aid to Latin American countries in real terms than the U.S. spent on the Marshall Plan in Europe after World War II.

Projecting social power as a diplomatic tool is not a Venezuelan invention. Great powers have used it. Small powers like Cuba have used it. Even previous Venezuelan administrations have used it. The Chávez innovation is to make social power the centerpiece of its foreign policy, while abandoning the goal of promoting democracy abroad. Few other countries have utilized social power to the same degree. And once a foreign government accepts this aid, Venezuela begins to provide this assistance with almost no strings attached.

The policy works at some levels. As a publicity stunt, converting social policy into a primary foreign policy tool has brought Venezuela huge rewards. It has allowed Chávez to win two types of allies: other states, which refuse to criticize Chávez, especially if they receive petrocash, and intellectuals on the left, especially in Europe. In the region, most Latin American leaders understand that Venezuela's so-called development aid is mostly a publicity stunt meant to camouflage serious domestic abuses and dubious international pretensions. Yet, even these governments refuse to engage in a public fight with someone who gives the impression of having his heart in the right place.

In short, Chávez's social power foreign policy has produced for Venezuela an impressive shield against international criticism even by those who know better, and a reputation for humanitarianism among those who are less informed. This is a significant foreign policy accomplishment.

#### *B. Venezuela's Foreign Policy Blunders*

Despite having discovered a seemingly effective foreign policy weapon—social power—Chávez has not been consistently skillful at playing his own game. The overt political bias of this interventionism has generated angry responses from politicians in the opposition abroad. Far more than the denunciation coming from the U.S. government, international organizations, and even Venezuelan citizens, the denunciation coming from non-chavista forces abroad has the highest degree of resonance and capacity to contain Chávez's influence. In some countries, as in Peru in 2007 and Colombia in 2008, Chávez's interventionism has actually unified the country on behalf of anti-Chavista candidates. When he uses social spending to create or promote political clones abroad, not just a diplomatic shield abroad, Chávez frequently suffers unnecessary diplomatic setbacks. In addition, because Chávez often promises more than he delivers, he disappoints many of the politicians he is trying to court.

#### *C. Perfecting rather than changing the model*

Chávez may have begun to realize that it is necessary to correct some of these mistakes. His more moderate foreign policy statements of the past few weeks may

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<sup>1</sup>This includes petro-states for which there is data: Iran, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates, Yemen, Algeria, Angola, Republic of Congo (Brazzaville), Egypt, Gabon, Libya and Nigeria. Kuwait was excluded from this list because, with 47 percent of outward FDI, it is a prominent outlier.

reflect this type of learning. Since March, for instance, Chávez decided to make peace with Colombia, to tone down his support for the FARC, and even to call for closer cooperation with the Drug Enforcement Administration. This moderation could be more the result of an effort to improve, rather than jettison, his foreign policy approach of exploring alternative ways to balance the United States. Specifically, these changes may reflect the fact that Chávez is beginning to learn from his previous mistakes.

Chávez might have learned, for instance, that any effort to create a Latin American coalition against the United States is simply unpopular, both at home and abroad, regardless of how much money he spends. He may have also realized that supporting the most radical, undemocratic political movements in the region (such as the FARC) is also unpopular. He might have realized that the best way to extend his influence is, therefore, to simply focus on less conditional cash transfers, rather than in supporting radical causes. This might explain why the same weekend that Chávez met with president Uribe to formalize peace with Colombia in July 11, he also held a Petrocaribe summit to welcome Guatemala as a new member and to offer more deals to all members in July 13.

This change in tactic—a preference for more general rather than more conditional social power diplomacy—does not mean that Chávez has renounced to his effort to “balance” the United States. Chávez’s claim to fame has been, and continues to be, his willingness to defy the United States. He will continue to privilege his alliance with Iran in order to press OPEC to keep productivity low and oil prices high. In the region, he will focus on using oil revenues to project social power. This allows him to develop a shield that he can then use to undermine liberal democracy at home and in the region.

#### CONCLUSION

The United States must develop a counter strategy to the “social power” diplomacy that Venezuela is deploying and which other petrostates could imitate. A hard-power response—such as a military or economic aggression, or condemning the government as a whole by designating it as state sponsor of terrorism—seems disproportionate to the offense. If anything, a hard-power approach may prove counterproductive: it could give the government justifications for more violations of the constitution and undo the progress that the opposition may make in the November elections. Furthermore, a hard-power approach will do little to contain the real challenge, Venezuela’s social power foreign policy.

A “soft power” response may not work either. Preaching the virtues of liberal democracy has little impact among illiberal political movements such as Chávez’s nor does it lessen the demand for foreign aid that Venezuela satisfies. Even emulating Venezuela by increasing U.S. aid abroad may not work either. The United States already devotes a lot of aid to the region. Adding substantially to this pool may have little marginal return. Increasing U.S. aid won’t diminish the demand for more aid, and thus, the demand for the type of foreign policy that Venezuela projects, and making our aid less conditional, as Venezuela does, will undermine governance.

Perhaps the best approach is to continue to monitor the activities of Venezuelan officials abroad—making every effort to identify individuals who are breaking the law. Identifying key law breakers rather than condemning the totality of the government seems to produce better results. Furthermore, the United States ought to continue to promote democratic politics and pluralism abroad. The most effective checks on Venezuela’s foreign policy have come from opposition parties in the countries where Chávez intervenes. Opposition actors can only be strong if they operate in strong pluralist democracies. Thus, strong democracies can provide checks on the kind of social power that Venezuela is projecting. These checks are not infallible, but they are not worthless either. Strong democracies may not save the world from wars or yield durable allies who think and act like the United States. These were the false hopes of the 1990s. But they seem to be our best available tool, however indirect, to counteract what seems to be a new type of foreign policy threat.

Mr. ENGEL. Thank you, Dr. Corrales. Dr. Bailey?

**STATEMENT OF NORMAN A. BAILEY, PH.D., ADJUNCT PROFESSOR OF STATECRAFT, THE INSTITUTE OF WORLD POLITICS, PRESIDENT, INSTITUTE FOR GLOBAL ECONOMIC GROWTH**

Mr. BAILEY. Mr. Chairman and Mr. Burton, thank you for the opportunity to testify before you on the subject of the current domes-

tic and international situation in Venezuela and its relations with the United States.

I wish to emphasize that everything in my written testimony is backed by extensive detailed and cross-checked information, in many cases with original documentation.

With reference to the internal situation in Venezuela at the present time, Venezuela currently has the highest rate of common crime and inflation in the hemisphere. It has extensive shortages of many staple products, such as eggs, milk, bread, et cetera. Venezuela currently imports about two-thirds of its consumer goods because of the serious deterioration of domestic production over the last few years.

The financial situation of the country is very poor. The free reserves of the central bank are negative, and the state oil company, PdVSA, had to borrow \$16 billion in 2007. During the question-and-answer period, I will be happy to talk about why that should be the case.

On the political side, the deterioration of Venezuela's democracy is a well-known story. The most recent outrage, however, is the disqualification of about 200 opposition candidates for governorships, mayoralties, and legislatures. This is directly out of the Iranian playbook, and the reasons given for the disqualifications range from the ludicrous to the absurd. Although all of the disqualifications have been appealed, without outside pressure it is unlikely that the bans will be lifted since all of the electoral and judicial authorities are controlled by the administration.

Finally, corruption in this administration in Venezuela is nothing less than monumental, with literally billions of dollars having been stolen by government officials and their allies in the private sector over the past 9 years. I would be happy to talk more about that.

All of the above is aside from the billions that Venezuela has spent on military equipment, including advanced fighter planes and submarines, way beyond any conceivable needs of the country for legitimate self-defense.

On a final note, the current Venezuelan regime is notoriously anti-Semitic, as documented by the American Jewish Committee and others. Jewish institutions are frequently harassed, and government publications print scurrilous cartoons reminiscent of Nazi Germany.

Much of the money collected by the official funds and banks has been used to try to influence policy and elections in the rest of the hemisphere and beyond. A recent compilation indicates that at least \$33 billion has been used in this way.

Additionally, financial support has been provided to insurgent groups in certain countries, most notoriously to the FARC in Colombia, as well as to ETA, the Basque separatist organization, and, most importantly, to Hamas, Hezbollah, and Islamic Jihad through their extensive network in Venezuela and elsewhere in Latin America. This is done directly through the Islamic Center on the Island of Margarita and subsidiary centers elsewhere in Venezuela, as well as the result of Iranian penetration in the hemisphere, which has been assiduously cultivated by the current Venezuelan administration.

Recently, the Iranians opened a bank in Caracas called the Banco Internacional de Desarrollo. This bank has an entirely Iranian board and is an obvious, and apparently successful, attempt to circumvent the financial sanctions that have been imposed on Iran by the United States and other countries and, of course, has unlimited access to the facilities of the Venezuelan financial system.

United States policy toward Venezuela has been characterized by an essential passivity in the face of many provocations. That the current regime there has been taking multiple measures contrary to our national interest is beyond question; that it represents a threat to the national security of the United States and our allies in the region should also be beyond question, not least due to the computers captured from the FARC leader, Raul Reyes', camp inside Ecuador.

This passivity is apparently motivated by the belief that the regime will eventually self-destruct, and, in any case, more active measures would threaten to exacerbate the oil markets, leading to an even higher price for crude.

It is not necessary to declare Venezuela a state sponsor of terrorism, although it obviously is, and not only with reference to the FARC but also to Hamas, Hezbollah, et cetera. Through current legislation on money laundering, drug trafficking, and terrorism, measures could be taken against Venezuelan banks which would cripple the Iranian attempt to bypass sanctions on their own financial system by using Venezuela's.

However, if Venezuela were to be declared a state sponsor of terrorism, and, as a result, oil imports from that country were blocked, it would be impossible for Venezuela to divert any substantial amount of its exports elsewhere because refining of its quality of crude, predominantly heavy, sour crude, is primarily concentrated in the Citgo refineries in the U.S.

By simply releasing an equivalent amount of crude from the strategic petroleum reserve, that oil would be effectively and immediately replaced with better quality crude. The effect on Venezuela, however, would be devastating. We would be happy to provide the subcommittee with extensive documentation of all of the above. Thank you very much.

[The prepared statement of Mr. Bailey follows:]

PREPARED STATEMENT OF NORMAN A. BAILEY, PH.D., ADJUNCT PROFESSOR OF STATECRAFT, THE INSTITUTE OF WORLD POLITICS, PRESIDENT, INSTITUTE FOR GLOBAL ECONOMIC GROWTH

Mr. Chairman, members of the Subcommittee:

Thank you for the opportunity to testify before you on the subject of the current domestic and international situation of Venezuela and its relations with The United States. I wish to emphasize that everything in this testimony is backed by extensive, detailed and cross-checked information, in many cases with original documentation, which demonstrate that under its present leadership Venezuela is a clear and immediate threat to the national security of The United States, especially due to its extensive and growing ties to the Islamic Republic of Iran.

With reference to the internal situation in Venezuela at the present time, the following points need to be emphasized:

1. Caracas and the other major cities of Venezuela currently have the highest rates of common crime in the Hemisphere.
2. Venezuela currently has the highest rate of inflation in the Hemisphere,

3. There are shortages of many staple products such as eggs, milk, bread, etc. Venezuela imports the vast bulk of its consumer goods because of the serious deterioration of domestic production in the last few years.

The financial situation of the country is very poor. The free reserves of the central bank are negative and the state oil company, PDVSA, had to borrow sixteen billion dollars in 2007. The Venezuelan crude mix gets about \$20 per barrel less than the international benchmark rate. Production has been falling for years due to lack of investment and maintenance. Domestic demand is huge because gasoline is sold at four to six cents per liter. Much of what is exported is given away (such as to Cuba) or sold at a discount for political reasons, through PetroCaribe and elsewhere.

Refinery downtime is extensive because of poor maintenance and security, much gasoline is smuggled into Colombia and PDVSA management is so poor that the company is subject to dozens of lawsuits internationally for non-performance of supply contracts. PDVSA does not receive the proceeds from advanced sales to raise cash, such as the \$3.5bn loan from Japan and the \$4bn loan from China collateralized with future oil deliveries. These funds go directly into the so-called development bank, BANDES, which along with the equally so-called development fund, FUNDES, is used as a slush fund for international operations by the government with no controls or supervision or transparency whatsoever. PDVSA in 2007 not only borrowed extensively (including from its U.S. subsidiary, CITGO, which in order to lend its parent one billion dollars had to borrow it itself, thereby affecting its bond rating), but began to sell off international assets, such as an important storage facility in the Bahamas.

The crown jewels of the Venezuelan economy, formerly well-run companies, especially Electricidad de Caracas (EDC) and CANTV, the telephone company, were nationalized and are now run with the same degree of efficiency as PDVSA. Many productive agricultural properties have been confiscated from their owners and given to the workers and are now much less productive.

On the political side, the deterioration of Venezuelan democracy is a well-known story. All of the major institutions of government are now in the hands of administration supporters as well as the vast majority of state governorships and municipal governments. The principal opposition television network, RCTV, was seized without compensation and remaining opposition media are constantly harassed.

The most recent outrage, however, is the disqualification of about 200 opposition candidates for governorships, mayoralties and legislatures. This is directly out of the Iranian playbook and the reasons given for the disqualifications range from the ludicrous to the absurd. Although all the disqualifications have been appealed, without outside pressure it is unlikely the bans will be lifted since all the electoral and judicial authorities are controlled by the administration. In any case, there is no reason to think that the electoral campaign will be conducted with any greater even-handedness than previous electoral contests in past years.

Finally, corruption in this administration in Venezuela is nothing less than monumental, with literally billions of dollars having been stolen by government officials and their allies in the private sector over the past nine years. One of the principal of these collaborators recently had his bank accounts closed by the Hong Kong and Shanghai Banking Corporation (HSBC) in London. They contained one and a half billion dollars. Some of this corruption and much of the money laundering taking place in Venezuela is connected with drug trafficking. At present, Venezuela and West Africa are the principal routes for Colombian cocaine going to Europe, and much of the resulting income stays with Venezuelan entities and individuals and is facilitated by the Venezuelan financial system, including both public and private institutions.

All of the above is aside from the billions that Venezuela has spent on military equipment, including advanced fighter planes and submarines, way beyond any conceivable needs of the country for legitimate self-defense.

Much of the money collected by the official funds and banks has been used to try to influence policy and elections in the rest of the Hemisphere and beyond. A recent compilation indicates that at least \$33bn has been used in this way, including buying billions of dollars worth of Argentine bonds at ruinous rates of interest, since Argentina has had no access to the international financial markets since defaulting on its international debt. Election contributions have been made in Nicaragua, Ecuador, Peru, and Argentina. Bolivia and elsewhere, including some of the Caribbean island states. In some cases this activity has been successful and in others, such as Peru, not, although it was a close call.

Additionally, financial support has been provided to insurgent groups in certain countries, most notoriously to the FARC in Colombia, as well as to ETA, the Basque separatist organization, and most importantly to Hamas, Hezbollah and Islamic

Jihad, through their extensive network in Venezuela and elsewhere in Latin America. This is done directly through the Islamic Center on the island of Margarita and subsidiary centers in Barquisimeto, Anaco, Puerto Ordaz and Puerto Cabello, as well as a result of Iranian penetration in the Hemisphere, which has been assiduously cultivated by the current Venezuelan administration. Regular flights tie the two countries together (although ordinary citizens cannot buy passage on those flights), Iranians are provided with Venezuelan passports and other documents and more recently the Iranians opened a bank in Caracas, called the Banco Internacional de Desarrollo. This bank has an entirely Iranian board and was authorized in 72 hours in a process that usually takes months. It is an obvious and apparently successful attempt to circumvent the financial sanctions that have been imposed on Iran by the United States and other countries and of course has unlimited access to the facilities of the Venezuelan financial system. In short, should hostilities break out between the U. S. and/or Israel and Iran, the Iranians directly or through their proxies now have the ability to seriously damage U.S. interests in our own Hemisphere, including the Panama Canal.

As a final note, the current Venezuelan regime is notoriously anti-semitic, as documented by the American Jewish Committee (AJC) and others. Jewish institutions are frequently harassed and government publications print scurrilous cartoons, reminiscent of Nazi Germany.

U.S. policy towards Venezuela has been characterized by an essential passivity in the face of many provocations, including gross insults directed at the president and secretary of state, among others. That the current regime there has been taking multiple measures contrary to our national interest is beyond question. That it represents a threat to the national security of the United States and our allies in the region should also be beyond question, not least due to the tapes captured from the FARC leader Raul Reyes' camp inside Ecuador. This passivity is apparently motivated by the belief that the regime will eventually self-destruct and in any case more active measures would threaten to exacerbate the oil markets leading to even higher prices for crude. This is a policy that I can understand but with which I do not agree.

It is not necessary to declare Venezuela a state sponsor of terrorism although it obviously is, and not only with reference to the FARC but also to Hamas, Hezbollah, etc. Through current legislation on money laundering, drug trafficking and terrorism measures could be taken against Venezuelan banks which would cripple the Iranian attempt to bypass sanctions on their own financial system by using Venezuela's. However, if Venezuela were to be declared a state sponsor of terrorism and as a result oil imports from that country were blocked, it would be impossible for Venezuela to divert any substantial amount of its exports elsewhere because refining of its quality of crude (predominantly heavy, sour crude) is primarily concentrated in the CITGO refineries in the U.S. By simply releasing about two million barrels a day of crude from the Strategic Petroleum Reserve (SPR), that oil would be effectively and immediately replaced, and with better quality crude. The effect on Venezuela, however, would be devastating.

We would be happy to provide the subcommittee with extensive documentation of all of the above.

Thank you very much.

Mr. ENGEL. Well, thank you all very much for good testimony, and, again, your official statements will be inserted into the official record, so if you summarized and did not give all of the details, it will still be in the record.

I have a number of questions that I would like to ask. Let me start with Dr. McCoy.

Two things: First of all, I said, when you gave your opening testimony, that I would give you a chance to elaborate on some of the things in subsequent questions, so let me give you that chance now, and I also want to ask you—you said that the action of the Venezuelan controller general disqualifying 272 candidates could be ruled unconstitutional by the Venezuelan Supreme Court.

The question I would have is whether the Supreme Court is independent enough to do that, or is it simply a Chavez kangaroo court? Could you comment on that and also on anything you wanted to add from your opening statement?

Ms. MCCOY. Yes. Thank you. I wanted to make just a brief comment on the question about the laptops and the FARC in regard to the discussion on the state-sponsored terrorism. The point that I made in my testimony was focused more on the information from the laptops. I do not have any of the other information that Secretary Shannon alluded to this morning, and the point is that the Interpol found that Colombia did not introduce files into the computers but did not assess the veracity of either the authorship or the content of those files.

So, taking the content of those files as proof of material support from the Venezuelan Government would be insufficient and would require corroborating evidence in order to be used as proof, as it only shows the communications and the beliefs from the authors from the FARC.

My point is that it would be important to look at corroborating evidence before taking any decision to use that as a reason for declaring Venezuela a state sponsor of terrorism rather than simply relying on the laptops.

On the U.S. relations, I just wanted to make the point that I agree with Professor Myers that the United States got off on the wrong foot with the Chavez administration, and it will be very difficult for the current administration to improve that relationship. Certainly, I do agree with Assistant Secretary Shannon that we should try and respond to any opening and certainly always try to dialogue, but the best chance would be with a new administration that may start fresh.

However, I do not expect there to be a major change. That is because the foreign policy goals of the Venezuelan Government are essentially to counterbalance the dominance of the United States in the region and in the world. So their goal is to build south-south relationships, to increase Latin American integration, to build alliance with other countries around the world, primarily within the South, in order to counterbalance U.S. dominance.

I do think that there could be a more cooperative relationship, particularly on pragmatic issues, and that we should work on that. Overall, we should learn the lessons from the ineffectiveness of policy toward Latin America and toward Venezuela over the last several years, though I would say, in agreement with the panel, that under Tom Shannon we have seen some improvement in policy.

But, basically, engaging with Latin America through multilateral institutions and in a much more consultative manner is going to have the best impact, not only on the possibility of a better relationship with Venezuela but really building the relationship with the rest of Latin America and closing that political vacuum that has opened and that Venezuela has certainly stepped into, in terms of offering alternative ideas and models.

Finally, your question on the independence of the Supreme Court. The Supreme Court was expanded 4 years ago from 20 to 32 members. At the time when it was 20 members, it was basically evenly divided. With the expansion to 32, certainly, it is perceived to be dominated by members strongly sympathetic to the government.

So I do think that, generally, the independence of institutions in Venezuela is very weak, that partisanship does imbue most of the

political institutions of the country, but that does not mean that the Supreme Court will necessarily take a ruling to maintain the disqualifications.

I think that they will look at the legality of it, but there are also, of course, political calculations about the impact of the disqualifications, and if they continue, because of the perception of political bias in the disqualifications and because of the perception of partisanship of the Supreme Court, if the disqualifications are maintained, that could very well have a negative impact on the legitimacy of the elections and those who are elected in November, and that is the danger to the administration.

Mr. ENGEL. Well, thank you. I think someone, in their testimony, mentioned that the inability of opposition or reformists to run, the disqualification of these people, is reminiscent of what is done in Iran all of the time, and I must say, to me, it is particularly troubling because I think that if you are truly going to have democracy, then you let candidates run and let the free exchange of views be done, and let the people decide. When you eliminate people, you do not really get a fair balance of political opinion.

In Iran, you can vote for the hardliners or the almost hardliners. There are really no reformers, and if this is the kind of thing that is being done in Venezuela, it is very, very troubling.

Let me ask the others to comment on some of the things that Dr. McCoy has said. Some people say that it is impossible to improve relations between Chavez and the Bush administration. We have heard that today. The argument goes that there is too much water under the bridge, that Chavez blames the administration for what he says is its involvement in the April 2002 coup against him or, at the very least, the U.S. recognition quickly of the briefly installed coup leader, Pedro Carmona. Do you think there is much truth to this argument that the administration is unable to do that as a result, and what do you see for the next President of the United States who comes in with a clean slate?

I read some of the remarks of Mr. Chavez in today's press reports, where he said that, essentially, between Obama and McCain, there is no difference, and, basically, you have to bring down the "Empire," referring to the United States. So what would your advice be for the next President of the United States toward Venezuela? What do you think can be done, should be done? Anybody else that would like to comment on that. Dr. Myers?

Mr. MYERS. I would like to agree with what was said here earlier by, really, the entire panel. Chavez is not going to change his goals. Chavez has come to the conclusion that the United States is a terrorist country, that the United States is a threat to the world, and that the only solution for the underdeveloped world is to see the United States' influence reduced.

So the question, of course, is, how are you going to deal with that because I do not think whether Senator Obama or whether Senator McCain are President, that is going to change?

The other thing I would say, though, is that Chavez has shown that he is not a kamikaze. When he is presented with something where he is going to lose, he does not go after it; he goes back, and he retreats, and that is why I think it is very important to build around Chavez—I hate to use this word—a wall of containment in

which it is really not to his advantage to behave in the way in which he perhaps would like to behave. The more that we are able to do that, then, eventually, I think he can channel a lot of his behavior in a way in which he may come around and do things that we can live with, in spite of himself.

Let me just say, I saw some of this. I worked in the 1998 election campaign with a group that was allied with him, and I briefed him during the election campaign, and I watched how his mind would work, and it was very clear, when he had a problem that was insoluble for a frontal attack, he would look for a way to go around it, and I think that the next President has to make sure that there are not a lot of ways that he can circumvent the United States and goes around it.

I was there a month or 2 ago. There were a lot of Chinese running around. He has got the Chinese developing railroads. He has attempted to use the Brazilian private sector to build the subways to substitute for the big American companies.

So, once again, he is not going to change in the way he wants to go, but we can box him in in such a way that I think that we can live with him. After all, it is a country of 25 million people.

Mr. ENGEL. Anybody else, either Dr. Corrales or Dr. Bailey?

Mr. CORRALES. I agree with both remarks. I want to say that the United States could work with Saudi Arabia.

Venezuela's relationship with Iran is also an attempt to balance Saudi Arabia, trying to create a bloc within OPEC to keep the price of oil high and destabilize oil markets. We have strong allies in OPEC, and, in order to use the strategy recommended by Professor Myers, we can use our allies in OPEC, and Saudi Arabia is an important one, and as well with China.

I think China could be an important partner. As a major consumer of oil, it shares similar interests as the United States. It does not want to have a crisis in oil markets. It does not share Venezuela's policy of maximizing the price of oil, and I think that this commonality of interest between the United States and China can help us with Venezuela because, as Dr. Myers was saying, China has some weight in the Chavez administration. Thanks.

Mr. ENGEL. Thank you. Dr. Bailey?

Mr. BAILEY. I just wanted to make a couple of very brief points about Chavez and the United States and what his state of mind is and so forth.

Chavez was—from his early days in the military academy—a coup plotter, and all of this is very heavily documented. Ten years before the coup which attempted to overthrow him, he tried to overthrow the Venezuelan Government in a military coup—somehow or other this seems to have disappeared from the public consciousness—and was arrested and imprisoned because of that.

I have extensively looked into the statements made by the United States Government at the time of the coup, in April 2002, both by the White House and by the State Department, and I find nowhere where the United States said that we were recognizing the Carmona government. What we did not do is say, "We oppose this unconstitutional coup against a democratically elected government." That, we did not do. But nowhere can I find any state-

ment that the United States recognized the government of Mr. Carmona.

Mr. ENGEL. Thank you. Let me start and go right across. We have talked about the question of putting Venezuela on the United States state-sponsor-of-terrorism list, so I would like, with a yes or no answer, if we can go across, to ask you, do you think that we should do that? I will start with Dr. Myers.

Mr. MYERS. I think it is a bad idea.

Mr. ENGEL. Dr. McCoy?

Ms. MCCOY. I do not think we should do that.

Mr. ENGEL. Dr. Corrales?

Mr. CORRALES. I think we should not do that.

Mr. ENGEL. You do not.

Mr. CORRALES. Should not.

Mr. ENGEL. Dr. Bailey?

Mr. BAILEY. I do not think it matters, one way or the other, because we can do whatever we need to do under current legislation.

Mr. ENGEL. Okay. Thank you. Let me ask one final question, and then I will turn it over to Mr. Burton.

Dr. Bailey, you had mentioned this in your testimony, and a number of us had questions for Secretary Shannon about the anti-Semitic rhetoric coming from the Chavez government and media outlets, and the two raids on the Jewish Community Center in Caracas in 2004 and 2007.

I also mentioned that there was a meeting recently between Minister of the Presidency Chacon and the Venezuelan Jewish community, and I wanted to ask others if you care to comment on your assessment of the Chavez government's treatment of Venezuela's Jewish community and how, specifically, is the State Department addressing these concerns, and what do you think Congress should do to assist the Jewish community in Venezuela?

If you take some of the rhetoric by Mr. Chavez from his speech and some of the things he said involving the Jewish community, it is very disturbing, quite frankly, and I think this is something that we need to monitor and to change, if possible. So I am wondering if anyone would care to comment on that. Mr. Myers?

Mr. MYERS. One interesting thing about that: If you go back to the 1998 election campaign, in which I was there quite a bit, when you would go into Chavez's headquarters, Nicholas Sarasoli was there, who was a major adviser, and he is a very well-known anti-Semite from Argentina, and a lot of the policy positions that were being taken by Chavez in the 1998 period of time were written by him.

I think, particularly, there was a downplaying of that until the 2006 invasion of Lebanon. There were individual things, but when the Lebanon invasion came, I saw a cranking up of the anti-Semitic rhetoric, and you would go into the office of the Minister of the Interior and a couple of other places, and you would see anti-Semitic literature right there that they were handing out.

What Chavez will maintain personally is that he is not anti-Semitic; he is just anti-Zionist and that he is very much against any support for Israel.

Once again, you can take some of that with a grain of salt, which I would. But, on the other hand, it would seem to me that he could

use the Jewish community as a scapegoat if things really begin to get bad.

That has been done over history, and Chavez is going to enter in a position, I think, in the next 6 or 8 months, in which he is going to have to accept a sort of redemocratization of Venezuela because he is going to lose some governorships, I think, some key ones, or else he is going to apply a stick, and the question is, who is going to take the blame when he starts to apply the stick. I think, at least, you need to have quite a bit of vigilance in this particular period.

Mr. ENGEL. Let me say, I think you are right on point, in terms of some people claiming to be anti-Zionist but not anti-Semitic. To me, that is just a ruse and just a phony issue. I think a lot of so-called "anti-Zionist rhetoric" is really anti-Semitic and done for those purposes.

Anybody else? Dr. Bailey?

Mr. BAILEY. Yes. Just to point out that the same Jesse Chacon, who, all of a sudden, has decided to meet with the Jewish community, was Minister of the Interior at the time that Professor Myers was talking about and had anti-Semitic literature posted on his walls.

Mr. ENGEL. Dr. McCoy?

Ms. MCCOY. I do not have any particular insight into the rhetoric or the motivations in this case, but, generally, in terms of what could be done about it: Whenever there are cases of particular discrimination or statements or policies that are seen as extreme by the broad population or the international community, and when there is a general outcry that ranges from op-eds in newspapers to commentary to private letters, public statements, then I have seen the Venezuelan Government reverse course or correct the mistake or the particular policy on several occasions.

We saw that recently with the FARC statement, earlier in January, that the FARC should be recognized as a belligerent force, and there was absolutely no support for that within Latin America, within the neighboring countries or within Venezuela, and, recently, with the military intelligence law, it was seen as overstepping the bounds.

So I think that perhaps the best reaction could be, in this particular case, discriminatory case, potentially dangerous case, would be an outcry, both international and within Venezuela, in these forums, of op-eds, public statements, and private statements.

Mr. ENGEL. I want to, and then I will call on Mr. Burton, just read into the record because I think it is important to put into context because I and many of my colleagues are concerned about the Jewish community in Venezuela, as a result of the raids in the Jewish schools and other things, and I just want to read into the record a quote from President Chavez himself in an address he delivered on Christmas Eve in 2004, and this is what he said.

These are his words. He said,

"The world has enough for everybody, but it happened that some minorities, the descendants of those who crucified Christ, the descendants of those who rejected Bolivar from here and who crucified him in their own way in Santa Marta over in Colombia took possession of the riches of the world. A minority

appropriated the world's gold to silver, the minerals, the waters, the good lands, the oil, and has concentrated the riches in a few hands."

Those are his words, not anybody else's, and it certainly is anti-Semitic on its face, and it draws from the protocols of the Elders of Zion, which, of course, has been exposed as a fraud.

So these things are troubling, and they need to be raised, and people in Venezuela and in the world need to know that we, in Washington, are very concerned about it, take it very seriously, and are monitoring it very carefully. Mr. Burton?

Mr. BURTON. Thank you, Mr. Chairman. I talked to some people during the break, when we went down to vote, and I wish our assistant secretary of state had been here because I wanted to ask him about this.

It appears that Chavez is funding a refinery in Port Sandino for heavy crude in Nicaragua, and also there are two hydroelectric plants being built in Nicaragua by Iranians.

So I have been under the impression that, because his production of heavy crude was being reduced, and he was giving special deals to Nicaragua and others regarding the cost of oil, that he was putting himself into a real trick bag.

I guess my question is, is he being bailed out now by people like the Iranians and the Chinese so he can go ahead and move in the direction he has been doing by trying to support leftist governments in Cuba, Nicaragua, Bolivia, and so forth? Go ahead, Dr. Bailey.

Mr. BAILEY. Well, it is true that there have been these major projects announced for Nicaragua, both by the Venezuelans and by the Iranians, including the refinery and hydroelectric plants, and the Iranians have opened a huge Embassy in Nicaragua, with something like 120 people in it. Obviously, because of the traditional and historical ties between those two countries, Iran and Nicaragua.

The actual fact is that no ground has been turned with reference to any of these projects. They have not actually taken place, and that is very common. I mean, Chavez offers a lot more than he actually performs.

However, very recently, within the last couple of days, the Ecuadorian and Venezuelan Governments announced a huge refinery, which would be in Manta, which is where the United States now has a surveillance base and which the Ecuadorians say they are not going to allow us to continue to utilize once the lease runs out.

Again, one of the most important points that I make in my paper is that Venezuela is bankrupt, and I do not care whether the price of oil is \$120 or \$140 a barrel, and I would be happy to go into what I say about that in my written testimony and why that should be. But there is a very strong rumor, and I only give it as a rumor, that he is going to try to sell Citgo in order to raise money.

That would be a terrible mistake, in my opinion, for Venezuela and for PdVSA, but the fact is that he has borrowed \$7.5 billion from the Chinese and the Japanese, pledging future oil deliveries. PdVSA borrowed \$16 billion in 2007. None of that money from sales went to PdVSA; it all went to the government's Development

Bank and Development Fund, which are Chavez's piggy-banks to use for whatever he wants to use it for, as I pointed out, about \$33 billion over the last few years.

So, yes, he is perfectly aware that, at this point, he cannot sell his crude anywhere else because most of the refineries that can process that crude are in the United States; they are the Citgo refineries. He would love to have other refineries around the world that could process his crude.

The Iranians have the same problem. They have heavy, sour crude also primarily, although not as bad as the Venezuelan, and they have leased huge tankers which are anchored in the Persian Gulf as storage facilities because they cannot get rid of it at this point.

Mr. BURTON. So you are not concerned about his goals. I was also told that he has been giving countries like Nicaragua 40 percent off on the price of oil in order for them to be able to keep their government afloat and keep the people happy, and he said that if oil goes to \$200 a barrel, which he says he thought would happen, he would reduce that another 20 percent to Nicaragua and, I presume, to Cuba and other countries down there to 40 percent of the world cost of oil.

Mr. BAILEY. Well, yes.

Mr. BURTON. But how can he do that if he has all of this indebtedness to these other countries, and he is bankrupt?

Mr. BAILEY. Well, he can ship oil, and he gives Cuba about 100,000 barrels a day free. He does not expect ever to be paid for that. PetroCaribe countries, including Nicaragua, get the oil at a huge discount, as you pointed out, and that is about 200,000 barrels a day.

So this is part of the reason why the oil revenues of Venezuela are not nearly as high as people calculate by systematically taking the international price for oil, which is for light, sweet crude, and applying to it Venezuela's total exports. It is nowhere near that, in terms of the actual revenues—

Mr. BURTON. He has been getting, we understand, between \$150 million and \$175 million a day from the United States for the oil that we buy, but that is not making a dent in his indebtedness, is what you are telling us.

Mr. BAILEY. That is correct.

Mr. BURTON. So he is bankrupt. How long can he survive—any of you can answer this—how long can he survive with this kind of a debt hanging over his head, and can he go ahead and continue to supply these resources to these other countries at these discount prices?

Mr. BAILEY. Well, the answer to the second part of your question, in my opinion, is that he cannot. The answer to the first part—how long can he keep it up?—does depend on the international price of crude because he gets, for the Venezuelan mix, about \$20 a barrel less than the international price. But, obviously, if the international price goes to \$200 a barrel, he is going to be getting \$180 a barrel, and he can survive for quite a long time. If the current reduction in the crude price continues, he is going to be in very serious trouble very shortly, and I am talking not about years but about months.

Mr. BURTON. What would happen if the United States made a declaration that we were going to do drilling on the continental shelf and in places like ANWR and start using coal conversion to oil so we could move toward energy independence? What would that do to him?

Mr. BAILEY. Mr. Burton, you are asking my opinion as to whether the United States should have an energy policy?

Mr. BURTON. Well, I am just assuming that we should myself.

Mr. BAILEY. My answer to that is, yes, we definitely should have a meaningful energy—

Mr. BURTON. But if we did, what would that do to him?

Mr. BAILEY. It would destroy him.

Mr. BURTON. Very quickly?

Mr. BAILEY. Yes.

Mr. BURTON. There is another reason why we ought to have energy independence.

Let me just say one more thing here real quick, Mr. Chairman. That Supreme Court you were talking about; that Supreme Court, as I recall, was appointed, in large part, by Chavez, was it not? I cannot believe that they are going to rule against him on these cases that are pending before the court. Why would they do that when they were appointed by him, and they are indebted to him, and he might cut their political heads off, or worse, if they ruled against him?

Ms. MCCOY. The Chavez administration has earned its legitimacy primarily through the electoral process, the number of elections that he has won, that his party has won, and with great percentages. So electoral legitimacy is very important.

With these sanctions in place, as I indicated earlier, it is very possible that the electoral legitimacy of this upcoming election would be damaged.

Mr. BURTON. So you are saying that you think the court might rule against him.

Ms. MCCOY. I really do not know what the court is going to do, but I think that, as they analyze the legal arguments, it is hard to predict, based upon a political argument, that it would necessarily go one way or another for political reasons.

Mr. BURTON. I will just give you a prognostication. I think that is one of the things he would risk if he felt like those people were a real threat to him. He would have to weigh one against the other, whether or not their being successful in the election, if they were put on the ballot, as opposed to the backlash he would get if the Supreme Court did what he wanted and kept them off the ballot.

So, anyhow, Mr. Chairman, those are the only questions I have.

Mr. ENGEL. Okay. Everyone seems to be raising their hands. I saw Dr. Corrales had his hand up. Let me give him a chance and then Dr. Myers and then Dr. Bailey.

Mr. CORRALES. I wanted to return to the point of the regime's survival in the event of no oil sales to the United States. Research in political science has looked at this question, and what we have found is that authoritarian regimes can survive an oil bust, more so than democracies. It is democratic regimes that do collapse, but authoritarian regimes manage to survive, even through bad times.

In the Western Hemisphere we saw it also with Cuba, how the end of the Soviet subsidies brought on pressures, but the regime survived, and, in Venezuela, one can imagine a situation in which the regime can use the hard economic times to actually toughen up, carry out a big crackdown and take tougher measures.

So I, myself, am not convinced necessarily that economic strangulation is the end of the Chavez regime.

Mr. BURTON. But what about their indebtedness? You said there are billions and billions of dollars of debt that they have acquired from China and elsewhere. Can they economically survive, and can he politically survive, with that burden hanging over him, in addition to us moving toward independence and cutting him off?

Mr. CORRALES. It would definitely force him to end his lavish spending, and it would produce political instability, but he can certainly cut back on spending quite dramatically, focus spending on just key sectors, get the police force out there until the crisis ends, and do some kind of structural adjustment, as tough as they come, until the situation improves.

Mr. ENGEL. Dr. Myers, you had your hand up. Push the button, please.

Mr. MYERS. In terms of survival, the critical thing for any country is a combination of popularity and force. Chavez has given great legitimacy, in my opinion, to the electoral system because he has been able to win elections almost up until the December referendum. All of the indications are right now that he is going to lose a significant amount of governorships, and if the opposition unites, he will lose even more.

So that raises the question, will he abandon popularity as a way of controlling Venezuela, and will he go to force? People I have talked to in Venezuela are very concerned that if Chavez looks like he is going to lose the elections, one way or another, he is going to apply the stick, and when you apply the stick, you are going to be able to control the country with a much lower level of economic income than you have when you depend on popularity, and I think that is really the great danger.

If you look at 50 to 60 percent of the population, lots of people are not benefiting very much from the money that is coming in, so Chavez can, basically, keep them down where they are, intensify class warfare, and, you know, this national intelligence law that he withdrew was very significant because if that had gone through, they would have a system in which they would have everybody informing on everybody else, the same type of thing. The Jews are a potential scapegoat there. There are all sorts of potential scapegoats that he would be able to hold up if he decides to crack down.

Now, the really critical thing, I think, is, what will the military do? If the military would back a Chavez crackdown, and he is working very hard to try to penetrate even more and more the military, then he might try it. What I have heard, and, once again, you can take this as rumor, is that the military was the force that forced him to recognize the result of the referendum, that there were a lot of people, in December, inside the Chavista movement, who said, You should put up figures because it was fairly close showing that you won.

The military had polls, which I actually saw, exit polls, which showed that it was not 51–49; it was something like 58–42, and that is what they believed. That was one reason that they were very strong on that.

But if Chavez was able to get control of the security forces, and, remember, he has created a second military force to go after the regular military force—these are the reserves—if he could go to the reserves, these military committees, and the new chief of staff of the Venezuelan Army was formerly the commander of these reserve forces—if he is able to assemble that, and he thinks he can get away with the stick, he would be very tempted to do it. That is why I think it is so important to give all of the strength to the democratic forces inside of Venezuela that is possible. I think the next 6 to 8 months are absolutely critical in where Venezuela is going to go.

Mr. ENGEL. But a lot of this, obviously, is speculation. I know there have been a lot of analogies with Cuba, Venezuela and Cuba, but, on the face of it, when Castro moved into Cuba, there were no referendums. There was nobody to check him or block him. So I think, as distasteful as some of the things that Chavez has done in Venezuela, I think it may be going a bit too far to sort of make that analogy with Cuba.

There was the referendum, in which his position was defeated. Whether it was defeated 51–49 or 58–42, it was defeated. There is an electoral system in Venezuela. We may not like it. It may not be what we think it should be, but there was no electoral system in Cuba. There is a sham electoral system in Cuba.

But, in Venezuela, you still have a political opposition, and a lot of what we are really talking about is speculation about what might happen in the next 8 to 10 months, and I agree with you, if it were to happen, it would be very disturbing and very alarming, but it has not happened, and I think that we need to balance that and keep that in mind when we rush to make comparisons. I do not mean you, Dr. Myers. I am just speaking in general.

When we rush to make comparisons with what Castro did in Cuba, I think there may be a number of similarities, but there are a lot of differences as well. I am not aware that the political opposition, for instance, has been jailed or incarcerated just because of the opposition, as was done in Cuba. So I think that we need to keep a perspective about it while, again, there is plenty with which I disagree. I think we need to show differences.

I do not know, Dr. McCoy, if you want to comment on that.

Ms. MCCOY. I just wanted reinforce what you said because, as I indicated before, the electoral legitimacy has been very important.

There are two other factors to keep in mind. Well, actually, let me just say, yes, Professor Myers is right that if there is a great deal of challenge, and if the government is forced to move to repression, if it loses popularity, and if it is forced to move to repression, it would be at an extremely high cost for the government to make that choice. It has not made that choice, to date. Instead, it has made the choice to continue its electoral legitimacy while eroding separation of powers—I do point that out. But the government has maintained a legal basis for its actions as well, working with laws approved by an elected national assembly, et cetera.

The other two factors to keep in mind are, one, President Chavez's own interest in being seen as an international leader, and a legitimate international leader, and I think that is important to keep in mind; and, second, the reaction of the neighboring states. The question has often been raised, what is the line that would need to be crossed to generate a strong reaction, condemnatory reaction, from the other Latin American countries?

An overt and systematic use of repressive force, I think, would definitely generate that reaction, and I think that is a very important constraining factor to keep in mind as well for that scenario.

Mr. ENGEL. Yes. Let me just say, Dr. Myers, I think that, in the next 8 months or so, as you mentioned, I agree that this will be a very important time for us to monitor and make sure that any decision to go away from democracy would be looked upon with alarm by us, obviously, and, as Dr. McCoy pointed out, by others as well.

Mr. MYERS. Can I make just one comment on that, please?

Mr. ENGEL. Yes, certainly.

Mr. MYERS. I certainly did not mean to imply that that is what President Chavez was going to do, but, like any movement, there is a lot of various factions there, and there are factions inside the Chavista movement that are pushing for that, and this is why I think it is so important that we pursue the types of policies which would show that it would be very costly to move away from the democracy because, even though, as you said very well, that we may not like exactly the way the democracy is going, it still is a democracy. You do not have anything like Saddam Hussein going on in Venezuela.

Chavez would like to be a good ruler. I really believe that, in his heart of hearts, he would like to be a good ruler, he would like to do things well for his people, and so I think there is something to be said with trying to play to the better angels of President Chavez. It might have surprisingly positive results.

Mr. ENGEL. Thank you. Let me just ask this last question, and then if Mr. Burton has any, if not—this has been very enlightening, and I thank all of you.

I want to quote a July 7th New York Times article. They were comparing Chavez and Brazilian President Lula da Silva, and what it said was, in the article—it was not an editorial; it was an article—it said:

"Today, the two leaders, often partners but sometimes rivals, offer starkly different paths toward development, and it is Brazil's milder and more pragmatic approach that appears ascendant. Amid the decline of American influence in the region, the Brazilian President is discreetly outflanking Mr. Chavez at almost every turn in the struggle for leadership in South America."

So I would like to ask the panel, do you agree with this assessment of Brazilian President Lula as trumping President Chavez as the regional leader in South America, and how is President Chavez viewed by other Latin American leaders? Lula was elected in a left-of-center coalition but has signed agreements with President Bush on oil, on energy, and on other things, and I think it goes to show

that democratically elected governments who may be left of center, that does not necessarily mean that they are going to be hostile to having good relations with the United States.

But I would like to hear anyone who might want to comment on that article about one being ascendant and one not, between Lula and Chavez. Is it true, not true, or something in the middle? Let me ask Dr. Bailey and then Dr. McCoy.

Mr. BAILEY. Yes. I would be happy to address that question, but, just very quickly, on the question of the Supreme Court and what it is going to do, my guess, and nobody inside the Supreme Court has told me, my guess is that Chavez will tell the Supreme Court to overturn some of the prohibitions, maybe 30, 40, 50 of the prohibitions, in order to give the process a greater sense of being fair.

As far as Lula versus Chavez, there is no doubt whatsoever. Lula has been a very good President, as was his predecessor, and the economic situation in Brazil reflects that. He has also completely observed and respected the democratic process within Brazil. Consequently, Brazilian influence is increasing, not only within Latin America but worldwide. It is now ranked with Russia and India and China as the so-called "brics," the most important developing countries in the world.

Chavez has been an economic disaster for Venezuela, and whoever comes after him is going to inherit a complete disaster in the economic and political and social spheres.

Mr. ENGEL. Dr. McCoy?

Ms. MCCOY. The Latino barometer polls of the entire region ask that very question about popularity of leaders, and Lula is near the top, and both President Bush and President Chavez are near the bottom, and I think that it is for parallel reasons.

But I think it is important to note that Chavez's resonance within the region, and he is popular among certain sectors, not just in Nicaragua and Cuba but among poor or marginalized, particularly, sectors in Latin America who want to be heard, who want to be empowered, and want to have a better life.

He resonates with them, and he also resonates by standing up to the United States, and even though he is seen in the region often as buffoonish, as way over the top, in terms of his inflammatory rhetoric, the challenge to the United States is applauded, even if quietly, sometimes noisily, sometimes quietly. In that sense, those bottom opinion polls of both President Bush and Chavez are mirrors that reflect each other because of antipathy toward U.S. policy in the region.

So, even though Lula certainly has a higher standing in the region, there is some resonance that we have to take into account of President Chavez and the reasons for that.

Mr. ENGEL. Dr. Myers, did you have your hand up?

Mr. MYERS. Just a question on that. One wants to remember that Brazil is almost 200 million people in a country about the size of the United States, if we did not have Alaska. This is a world power in the making, and I think, eventually, they are going to have almost a dominant influence throughout most of the South American continent, and it is interesting.

When, originally, they talked about ethanol, for example, what a terrible deal that ethanol was for the poor, and Chavez made a lot

of statements, and he went to Cuba, and then he goes to Brazil, and he has a little talk with Lula, and, all of a sudden, Chavez comes out and talks about how great ethanol was, and if you look behind, at the news conference, Lula is standing there biting his tongue with almost a smile on his face.

So I think this is a very strong influence that the future of South America does not really belong to Hugo Chavez, even though he does have a certain resonance amongst, you know, the poor, at that point.

He tried that in Brazil. He went down to Santa Catarina to some of the land-invasion areas, and he was roundly condemned by Brazilians from both the left and the right, and he has stayed out of that ever since.

Mr. ENGEL. Thank you. Mr. Burton tells me he has a parting comment.

Mr. BURTON. I just have one comment. When I was down there and met with Chavez at his palace in Caracas, I could not help but notice the huge number of Cubans that were there. He would say, "How do I know they were Cubans?" I knew they were Cubans, and they were there to protect him.

I am concerned about the influence that the Castro brothers have had on him. The block captain system that they have in Cuba to spy on other people, and, in the event that there is repression there, that that might emerge.

I do not know how many Cubans he has there, but I think he has quite a few, and their influence is something that I do not think anybody really can calculate at this time.

With that, I want to thank all of you for being here. It has been very, very informative. I only wish that our Deputy Secretary of State was here because I wish he could have heard some of your comments. Thank you very much.

Mr. ENGEL. Well, let me thank the panel. I think that all of your testimony was very helpful and the answering of the questions and your opening statements as well. I think we all learned a great deal, and, certainly, this is something that is very topical and very important and something that is not going to change or go away very quickly.

So I am sure, in the future, our paths will cross again, and I thank you for your testimony.

The subcommittee hearing is now adjourned.

[Whereupon, at 2:33 p.m., the subcommittee was adjourned.]



## A P P E N D I X

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### MATERIAL SUBMITTED FOR THE HEARING RECORD

#### PREPARED STATEMENT OF THE HONORABLE RON KLEIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. Chairman, thank you for holding this important hearing. My constituents in South Florida know that when there is a bump in the road in Latin America, we feel it in South Florida. We have close economic, cultural and familial ties. Venezuela has benefited from high oil prices and has become South Florida's #2 trading partner.

But America's relationship with Venezuela is experiencing major challenges now. I believe that our foreign policy has not been as engaged as it should be in Latin America, and that vacuum has left an opening for people like President Chavez and President Ahmadinejad of Iran to come in and build relationships. This is dangerous for America and especially dangerous for Florida—it is too close to home.

There are now direct flights from Caracas to Tehran, and according to the State Department Reports on Terrorism, Venezuela's is not fully cooperating in anti-terrorism efforts, including passport control.

Chavez himself has gone to Tehran numerous times to show solidarity with Ahmadinejad, a man who calls for "wiping Israel off the map" and denies the Holocaust.

I am also deeply concerned about reported anti-Semitism in Venezuela. In the last year, there was a raid on a Jewish Community Center in Caracas, La Hebraica, which was clearly an attempt to intimidate the community. The Jewish population has halved in the last decade and is now down to 13,000. Many of those who have managed to leave have immigrated to the South Florida area.

State-affiliated media have presented anti-Semitic statements and programs, including calling Jews "Christ-killers," equating Zionism with Nazism, and denying the Holocaust.

I hope that this hearing will cover these important issues.

